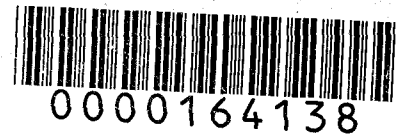


ORIGINAL



BEFORE THE ARIZONA CORPORATION COMMISSION

AZ CORP COMMISSION

DOCKET CONTROL

COMMISSIONERS

SUSAN BITTER SMITH - Arizona Corporation Commission  
DOUG LITTLE  
TOM FORESE  
BOB BURNS  
BOB STUMP

2015 SEP 30 PM 1 31

DOCKETED

SEP 30 2015

DOCKETED BY

YK

DOCKET NO. G-02527A-15-0319

IN THE MATTER OF THE APPLICATION  
OF GRAHAM COUNTY UTILITIES, INC. -  
GAS DIVISION FOR A DETERMINATION  
OF THE FAIR VALUE OF ITS PROPERTY  
FOR RATEMAKING PURPOSES, TO FIX A  
JUST AND REASONABLE RATE OF  
RETURN THEREON, TO APPROVE RATES  
DESIGNED TO DEVELOP SUCH RETURN,  
AND FOR RELATED APPROVALS.

APPLICATION TO INCREASE  
RATES AND CHARGES  
PURSUANT TO A.A.C. R14-2-107

Pursuant to Arizona Revised Statutes ("A.R.S.") § 40-250 and Arizona Administrative Code ("A.A.C.") R14-2-107, Graham County Utilities, Inc. ("GCU" or the "Cooperative"), hereby submits its Application for a Determination of the Fair Value of its Property for Ratemaking Purposes, to Fix a Just and Reasonable Return Thereon, to Approve Rates Designed to Develop Such Return, and for Related Approvals (the "Application"). In support of this Application, GCU states as follows:

BACKGROUND

1. In Decision 73649 (February 6, 2013), the Arizona Corporation Commission ("Commission") adopted revisions to A.A.C. R14-2-103 and added a new section A.A.C. R14-2-107 which establish an alternative streamlined ratemaking application and process for nonprofit cooperatives providing electric or natural gas utility service. GCU is a non-profit cooperative which provides natural gas service to customers in Arizona.

2. On August 4, 2015, GCU submitted to the Commission's Utilities Division Staff ("Staff") a Request for Pre-Filing Eligibility Review in accordance with A.A.C. R14-2-107(C) which included a draft of this Application, a proposed form of customer notice and a proposed form of recommended order.

1           3. On September 3, 2015, GCU met with Staff as required by A.A.C. R14-2-107(C)(3) to discuss  
2 the Cooperative's eligibility under A.A.C. R14-2-107(B), the proposed form of customer notice, and  
3 the proposed form of recommended order. At that meeting, Staff advised GCU that it meets the  
4 eligibility requirements of A.A.C. R14-2-107(B) for filing a streamlined rate case. At that meeting, Staff  
5 also approved the form of customer notice to be mailed to customers as required by A.A.C. R14-2-  
6 107(C)(5 ) and A.A.C. R14-2-107(D).

7           4. After meeting with Staff, GCU filed a Request for Docket Number and Notice of Filing  
8 Proposed form of Customer Notice on September 3, 2015, in accordance with A.A.C. R14-2-107(C)(4).  
9 The docket number in this docket was assigned that same day.

10           5. On September 9, 2015, GCU caused a copy of the approved customer notice to be mailed  
11 via First Class Mail to all customers of record as of the date of mailing. On September 21, 2015, GCU  
12 docketed a Notice of Mailing Customer Notice certifying that the approved customer notice was mailed  
13 via First Class Mail by September 9, 2015 to each customer of the Cooperative as required by A.A.C.  
14 R14-2-107(C)(5) and A.A.C. R14-2-107(D). The customer notice sets a deadline of October 13, 2015  
15 for customers of GCU to file intervention requests and/or objections to the Application.

16           6. GCU is an Arizona member-owned non-profit distribution cooperative headquartered in  
17 Pima, Arizona. The Cooperative provides natural gas distribution service to approximately 4,745  
18 members/customers located in Graham County. GCU is a classified as a Class B utility under A.A.C.  
19 R14-2-103(A)(3)(q).

20           7. GCU's 9-member Board of Directors ("Board") is elected by the Cooperative's members and  
21 oversees all aspects of the Cooperative's operations. At a regular meeting of the Board held on June 2,  
22 2015, the Board approved the filing of this Application.

23           8. GCU's current rates and charges were established in Decision 74002 issued on July 30, 2013  
24 and was effective August 1, 2013.

25                           **REQUEST FOR RATE INCREASE**

26           9. GCU's test year ("Test Year") is the twelve months ending December 31, 2014. GCU seeks  
27 authority from the Commission to increase its annual gross revenue requirement by \$114,237, from  
28 adjusted Test Year revenues of \$3,033,696 to \$3,147,933, an increase of 6% over actual Test Year total

1 base revenue. The rate increase would yield an Operating margin of \$150,202. GCU's request, if  
2 granted, will result in a 5.86% rate of return on Fair Value Rate Base ("FVRB").

3 10. Under the Application, a residential customer with monthly consumption of 59 therms  
4 (average use) in the winter will see an increase in his or her bill of \$1.30 per month (\$37.30 to \$38.60),  
5 or 3.5%. A residential customer with monthly natural gas consumption of 46 therms (median usage)  
6 in the winter will see an increase in his or her bill of \$1.30 per month (\$32.39 to \$33.69), or 4%.

7 11. The rate increase is necessary to recover operating costs. The rate increase will allow GCU  
8 to maintain the financial integrity of the Cooperative.

9 **ELIGIBILITY CRITERIA**

10 12. The eligibility requirements for filing a streamlined rate case are contained in A.A.C.  
11 R14-2-107(B). As set forth below, GCU meets all of the eligibility requirements of the rule.

12 a. GCU is classified as a Class B utility under A.A.C. R14-2-103(A)(3)(q) and,  
13 therefore, meets the eligibility requirement of A.A.C. R14-2-107(B)(1).

14 b. The last full permanent rate case decision for GCU's Gas Division was issued as  
15 Decision 74002 issued July 30, 2013, which is within the 180-month period preceding the filing of  
16 this Application as required in A.A.C. R14-2-107(B)(2).

17 c. This is the first filing by GCU under A.A.C. R14-2-107, so the Cooperative meets  
18 the eligibility requirements of A.A.C. R14-2-107(B)(3) and (4).

19 d. GCU is required by law and/or contract to make a certified annual financial and  
20 statistical report to its lender, the National Rural Utilities Cooperative Finance Corporation ("CFC").  
21 CFC is a non-profit lender that specializes in the utility industry so the Cooperative meets the  
22 eligibility requirement of A.A.C. R14-2-107(B)(5).

23 e. GCU's January 2014 to December 2014 Test Year complies with the definition of a  
24 "test year" in A.A.C. R14-2-107(A)(14), so the Cooperative meets the eligibility requirement of  
25 A.A.C. R14-2-107(B)(6). GCU's audited financial statements included are for the period ending  
26 September 30, 2014. The ending date is within the timeframe permitted by A.A.C. R14-2-107(B)(7)  
27 so the cooperative meets the eligibility requirement  
28

1 f. GCU is proposing an increase in actual Test Year total base revenue of 6% which  
2 meets the maximum increase of 6% permitted under A.A.C. 14-2-107(B)(8), so this eligibility  
3 requirement is met.

4 g. GCU's Application uses original cost rate base as its fair value rate base so the  
5 Cooperative meets the eligibility requirement of A.A.C. R14-2-107(B)(9).

6 h. GCU's Application does not propose: (i) any change to an existing adjustor or  
7 surcharge mechanism; (ii) adoption of any new adjustor or surcharge mechanism; or (iii) adoption of  
8 a new hook-up fee or another new type of fee, so the Cooperative meets the eligibility requirement of  
9 A.A.C. R14-2-107(B)(10).

10 i. GCU's Application does not propose a "rate structure change" as defined in A.A.C.  
11 R14-2-107(A)(1) or any non-price tariff change, so the Cooperative meets the eligibility requirement  
12 of A.A.C. R14-2-107(B)(11).

13 j. GCU's Application does not seek financing approval or consolidation with another  
14 docket, so the Cooperative meets the eligibility requirement of A.A.C. R14-2-107(B)(12).

15 k. The customer notice provided by GCU conformed to the requirements of A.A.C.  
16 R14-2-107(D) and was approved by Staff on September 3, 2015, so the Cooperative meets the  
17 eligibility requirement of A.A.C. R14-2-107(B)(13).

18 l. GCU is a distribution cooperative. Pursuant to A.A.C. R14-2-107(B)(14),  
19 objections to the Application timely submitted by the Cooperative's customers may represent no more  
20 than 5% of all customer accounts or no more than 1,000 customer accounts, whichever is fewer. For  
21 purposes of determining eligibility under this rule, the total number of GCU customer accounts as of  
22 December 31, 2014 was 4,745. Five percent of the customer accounts is 237, so the applicable  
23 objection threshold for GCU in this rate case is 237. As of the close of business on October 13, 2015  
24 the Commission had received no consumer comments from customers in opposition to the  
25 Application which is below the permitted number of 237 objections for a streamlined rate case. In a  
26 subsequent filing, GCU will update the number of customer comments in opposition to the  
27 Application through the close of business on October 13, 2015, the deadline for filing objections.  
28

1 n. The eligibility requirement in A.A.C. R14-2-107(B)(15) applies to generation  
2 cooperatives and does not apply to GCU.

3 **FILING REQUIREMENTS**

4 13. The name of the Applicant is Graham County Utilities, Inc.

5 14. The Test Year is the 12 months year ended December 31, 2014.

6 15. GCU hereby waives the use of reconstruction cost new rate base to determine its fair  
7 value rate base as required pursuant to A.A.C. R14-2-107(E)(2).

8 16. In accordance with A.A.C. R14-2-107(E)(3), a copy of the GCU's September 30,  
9 2014 audited financial statements are attached hereto as Attachment 1. This is the Cooperative's most  
10 recent report to CFC. GCU's audited financial statements included are for the period ending  
11 September 30, 2014. The ending date is within the timeframe permitted by A.A.C. R14-2-107(E)(4)  
12 so the cooperative meets the eligibility requirement

13 17. In accordance with A.A.C. R14-2-107(E)(5) and (6), attached hereto as Attachment 2 is  
14 the information listed in the table in A.A.C. R14-2-103(B)(1) for Schedules A-1, A-4, A-5, B-2, B-5,  
15 C-1, C-2, D-2, E-1, E-2, E-5, E-6, E-7, E-9, F-1, F-2, F-3, F-4, H-1, H-2, H-3, H-4.0 through H-4.2,  
16 and H-5.0 through H-5.2.

17 19. Attached hereto as Attachment 3 is a copy of the notice that was mailed via First Class  
18 Mail to each customer of GCU as of the date of mailing. A copy of the Notice of Mailing Customer  
19 Notice was previously docketed with the Commission on September 21, 2015.

20 20. Attached hereto as Attachment 4 is a proposed form of order.

21 21. GCU requests that this Application be approved without a hearing.

22 **APPLICANT'S CONTACT INFORMATION**

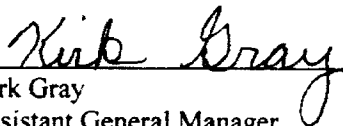
23 22. All communications, notices, and correspondence regarding this Application, including  
24 discovery and pleadings with respect thereto, should be served upon the following:  
25

26 Kirk Gray  
27 PO Drawer B  
28 Pima, Arizona 85543  
928-485-8665  
Email: kgray@gce.coop

1           WHEREFORE, in accordance with A.A.C. R14-2-107, GCU requests that the Commission  
2 enter its order approving the Application and the proposed rate increase.

3           RESPECTFULLY SUBMITTED this 30<sup>th</sup> day of September, 2015.  
4

5           By:

  
Kirk Gray  
Assistant General Manager  
Graham County Utilities, Inc.  
PO Drawer B  
Pima, Arizona 85543

9           ORIGINAL and 15 copies filed this  
10 30<sup>th</sup> day of September, 2015, with:

11           Docket Control  
12 ARIZONA CORPORATION COMMISSION  
13 1200 West Washington  
14 Phoenix, Arizona 85007  
15  
16  
17  
18  
19  
20  
21  
22  
23  
24  
25  
26  
27  
28

# **Attachment 2**

**GRAHAM COUNTY UTILITIES, INC. - Gas Division**

**DOCKET NO.**

**Test Year Ended December 31, 2014**

**COMPUTATION OF INCREASE IN GROSS REVENUE REQUIREMENTS**

**Schedule A-1**

**Supporting Schedules: B-2, C-1, H-1**

1 Adjusted Rate Base	\$ 2,340,224
2 Adjusted Operating Income	\$ 17,993
3 Current Rate of Return	0.77%
4 Required Operating Income	\$ 132,230
5 Required Rate of Return	5.65%
6 Operating Income Deficiency	\$ (114,237)
7 Gross Revenue Conversion Factor	1.00
8 Increase in Gross Revenue Requirement	\$ 114,237

Customer Classification	Projected Increase Due to Rates	
	Revenue	Percent
Residential Consumer	\$ 78,243	5.2%
Commercial Consumer	\$ 35,342	8.8%
Irrigation Consumer	\$ 652	9.0%
<b>Total Revenue</b>	<b>\$ 114,237</b>	<b>6.0%</b>
<b>Residential Customers</b>	<b>\$ 78,243</b>	<b>5.2%</b>



GRAHAM COUNTY UTILITIES, INC. - Gas Division  
DOCKET NO.  
Test Year Ended December 31, 2014

CONSTRUCTION EXPENDITURES AND GROSS UTILITY PLANT IN SERVICE  
Schedule A-4  
Supporting Schedules: E-5, F-3

	Beginning Plant	Construction Expenditures	Retirements	Net General Plant	Ending Plant	Accumulated Depreciation	Net Plant
12/31/2012	\$5,028,491	\$ 74,947	\$ -	\$ 15,442	\$5,118,880	\$ 2,713,237	\$2,405,643
12/31/2013	\$5,118,880	\$ 103,727		\$ 13,227	\$5,235,834	\$ 2,876,237	\$2,359,597
12/31/2014	\$5,235,834	\$ 146,665	\$ 15,125	\$ 4,307	\$5,371,681	\$ 3,038,376	\$2,333,305
12/31/2015	\$5,371,681	\$ 80,000		\$ -	\$5,451,681	\$ 3,192,032	\$2,259,649
12/31/2016	\$5,451,681	\$ 80,000		\$ -	\$5,531,681	\$ 3,345,688	\$2,185,993
Test Year							

GRAHAM COUNTY UTILITIES, INC. - Gas Division  
DOCKET NO.

Test Year Ended December 31, 2014

SUMMARY CHANGES IN FINANCIAL POSITION  
Schedule A-5  
Supporting Schedules: F-2

	12/31/2012	12/31/2013	Test Year 12/31/2014	Adjusted Test Year	Proposed Rates
<b><u>Sources of Funds</u></b>					
Net Margins	\$ (46,026.00)	\$ 34,295.00	\$ 40,980.00	\$ (18,810.00)	\$ 136,407.00
Depreciation	\$ 164,032.00	\$ 163,000.00	\$ 162,139.00	\$ (4,971.00)	\$ 157,168.00
Capital Credit Non-Cash	\$ 6,202.00	\$ 6,855.00	\$ 16,228.00		\$ 16,228.00
Deferred Charges	\$ -	\$ -	\$ -		\$ -
Deferred Credits & CIAC	\$ 230,977.00	\$ (39,285.00)	\$ (199,521.00)		\$ (199,521.00)
Under Billed Fuel Cost - Net	\$ (22,923.00)	\$ (45,035.00)	\$ (93,861.00)		\$ (93,861.00)
Accounts Receivable	\$ 29,562.00	\$ (40,308.00)	\$ 41,464.00		\$ 41,464.00
Inventories & Other Current Assets	\$ 18,290.00	\$ (42,346.00)	\$ (32,460.00)		\$ (32,460.00)
Payables & Accrued Expenses	\$ (167,659.00)	\$ 49,997.00	\$ 57,582.00		\$ 57,582.00
<b>Total Funds from Operations</b>	<b>\$ 212,455.00</b>	<b>\$ 87,173.00</b>	<b>\$ (7,449.00)</b>	<b>\$ (23,781.00)</b>	<b>\$ 83,007.00</b>
Graham County Electric - Term Loan		\$ 1,000,000.00			\$ -
Advances from Graham County Electric Credit Line	\$ 10,967,050.00	\$ 9,179,689.00	\$ 5,113,834.00	\$ 23,781.00	\$ 5,137,615.00
<b>Total Funds from Financing</b>	<b>\$ 10,967,050.00</b>	<b>\$ 10,179,689.00</b>	<b>\$ 5,113,834.00</b>	<b>\$ 23,781.00</b>	<b>\$ 5,137,615.00</b>
<b>Total Funds Received</b>	<b>\$ 11,179,505.00</b>	<b>\$ 9,266,862.00</b>	<b>\$ 5,106,385.00</b>	<b>\$ -</b>	<b>\$ 5,220,622.00</b>
<b><u>Application of Funds</u></b>					
Gross Additions to Plant	\$ (95,069.00)	\$ (116,955.00)	\$ (135,846.00)		\$ (135,846.00)
Investments in Associated Organizations	\$ -	\$ -			\$ -
Payments on Long Term Debt-CFC	\$ (128,152.00)	\$ (136,930.00)	\$ (118,762.00)		\$ (118,762.00)
Payments on Graham County Electric Term Loan		\$ (14,359.00)	\$ (78,187.00)		\$ (78,187.00)
Payments on Aid to Construction Refunds		\$ (154,829.00)	\$ (11,518.00)		\$ (11,518.00)
Memberships	\$ 554.00	\$ (60.00)	\$ (105.00)		\$ (105.00)
Consumer Deposits	\$ 11,031.00	\$ 15,660.00	\$ 4,334.00		\$ 4,334.00
Payments on Graham County Electric Credit Line	\$ (10,967,869.00)	\$ (8,859,389.00)	\$ (4,766,301.00)		\$ (4,881,021.00)
<b>Total Funds Applied</b>	<b>\$ (11,179,505.00)</b>	<b>\$ (9,266,862.00)</b>	<b>\$ (5,106,385.00)</b>	<b>\$ -</b>	<b>\$ (5,221,105.00)</b>
<b>Change in Funds All Activities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (483.00)</b>
<b>Beginning Cash General Funds</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>
<b>Ending Cash General Funds</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ -</b>	<b>\$ (483.00)</b>

**GRAHAM COUNTY UTILITIES, INC. - Gas Division**

**DOCKET NO.**

**Test Year Ended December 31, 2014**

**ORIGINAL COST RATE BASE AND PRO FORMA ADJUSTMENTS**

**Schedule B-2**

**Recap Schedules: E-1**

	<b>Test Year</b>
Distribution Plant	\$ 5,163,829
General Plant	\$ 207,851
<b>Total Utility Plant in Service</b>	<b><u>\$ 5,371,680</u></b>
Less Accumulated Depreciation	<u>\$ 3,038,376</u>
<b>Net Utility Plant in Service</b>	<b><u>\$ 2,333,304</u></b>
Consumer Deposits	\$ (100,790)
Materials & Supplies	\$ 76,346
Prepayments	\$ 31,364
<b>Total Working Capital</b>	<b>\$ 6,920</b>
<b>Total Rate Base</b>	<b><u>\$ 2,340,224</u></b>

**GRAHAM COUNTY UTILITIES, INC. - Gas Division**  
**DOCKET NO.**  
**Test Year Ended December 31, 2014**

**COMPUTATION OF WORKING CAPITAL**  
**Schedule B-5**  
**Recap Schedules: E-1**

**AVERAGE MATERIALS & SUPPLIES, PREPAYMENTS & CONSUMER DEPOSITS**

	Materials & Supplies	Prepayments	Consumer Deposits	Working Capital
Jan-2014	\$ 106,706	\$ 11,165	\$ (97,410)	\$ 20,461
Feb-2014	\$ 108,013	\$ 8,680	\$ (97,445)	\$ 19,248
Mar-2014	\$ 108,422	\$ 6,194	\$ (97,920)	\$ 16,696
Apr-2014	\$ 120,352	\$ 3,708	\$ (100,885)	\$ 23,175
May-2014	\$ 118,360	\$ 1,710	\$ (97,410)	\$ 22,660
Jun-2014	\$ 119,008	\$ (776)	\$ (94,880)	\$ 23,352
Jul-2014	\$ 118,673	\$ (3,262)	\$ (93,330)	\$ 22,081
Aug-2014	\$ 73,465	\$ 13,032	\$ (94,120)	\$ (7,623)
Sep-2014	\$ 63,774	\$ 21,121	\$ (94,270)	\$ (9,375)
Oct-2014	\$ 71,101	\$ 18,635	\$ (92,825)	\$ (3,089)
Nov-2014	\$ 70,085	\$ 15,230	\$ (98,715)	\$ (13,400)
Dec-2014	\$ 76,346	\$ 13,159	\$ (100,790)	\$ (11,285)
Average	\$ 96,192	\$ 9,050	\$ (96,667)	\$ 8,575

GRAHAM COUNTY UTILITIES, INC. - Gas Division  
DOCKET NO.  
Test Year Ended December 31, 2014

ADJUSTED TEST YEAR INCOME STATEMENT  
Schedule C-1  
Recap Schedules: A-1, E-2

G/L #	Revenue	Test Year	Adjustments	Adjusted
440 Residential		\$ 2,233,399		\$ 2,233,399
441 Irrigation		\$ 19,109		\$ 19,109
442 Commercial		\$ 781,188		\$ 781,188
<b>Subtotal Revenue from Gas Sales</b>		<b>\$ 3,033,696</b>		<b>\$ 3,033,696</b>
555.4 Purchased Gas Adjuster		\$ 93,799		\$ 93,799
456 Misc. Service Revenue		\$ 40,664		\$ 40,664
<b>Subtotal Other Gas Revenue</b>		<b>\$ 134,463</b>		<b>\$ 134,463</b>
<b>TOTAL REVENUE</b>		<b>\$ 3,168,159</b>		<b>\$ 3,168,159</b>
	Expenses			
555 Cost of Gas		\$ 1,223,721		\$ 1,223,721
580 - 583.2 Mains & Services		\$ 264,215	\$ 8,500	\$ 272,715
586 -586.2 Metering		\$ 121,815		\$ 121,815
588 Blue Stake		\$ 66,178		\$ 66,178
589 Rents		\$ 13,105		\$ 13,105
<b>Subtotal Distribution/Operations</b>		<b>\$ 465,313</b>		<b>\$ 473,813</b>
590 -593.6 Mains & Services		\$ 293,962	\$ 4,223	\$ 298,185
592 Measuring & Stations		\$ 449		\$ 449
<b>Subtotal Distribution/Maintenance</b>		<b>\$ 294,411</b>		<b>\$ 298,634</b>
902 Meter Reading		\$ 91,184		\$ 91,184
903 Consumer Expense		\$ 255,057	\$ 4,886	\$ 259,943
<b>Subtotal Consumer Accounting</b>		<b>\$ 346,241</b>		<b>\$ 351,127</b>
920 Admin & General		\$ 207,865	\$ 4,315	\$ 212,180
921 Office Supplies & Expense		\$ 85,929		\$ 85,929
923 Outside Services		\$ 25,381		\$ 25,381
925 -931.1 Miscellaneous General		\$ 123,871		\$ 123,871
932 General Plant Maintenance		\$ 37,520		\$ 37,520
<b>Subtotal Administrative &amp; General</b>		<b>\$ 480,566</b>		<b>\$ 484,881</b>
<b>TOTAL OPERATIONS &amp; MAINTENANCE EXPENSE</b>		<b>\$ 2,810,252</b>		<b>\$ 2,832,176</b>
403.6 Depreciation Distribution		\$ 138,831		\$ 138,831
403.7 Depreciation General Plant		\$ 10,844		\$ 10,844
406 Utility Plant Acquisition Amortization		\$ 12,465	\$ (5,281)	\$ 7,184
<b>Subtotal Depreciation</b>		<b>\$ 162,140</b>		<b>\$ 156,859</b>
427 Interest Long Term Debt		\$ 140,683	\$ (9,449)	\$ 131,234
431 Interest Consumer Deposits		\$ 6,256		\$ 6,256
432 Interest Credit Line		\$ 12,863	\$ 10,778	\$ 23,641
<b>Subtotal Interest</b>		<b>\$ 159,802</b>		<b>\$ 161,131</b>
<b>TOTAL COST OF SERVICE</b>		<b>\$ 3,132,194</b>		<b>\$ 3,150,166</b>
<b>OPERATING MARGINS</b>		<b>\$ 35,965</b>		<b>\$ 17,993</b>

GRAHAM COUNTY UTILITIES, INC. - Gas Division

DOCKET NO.

Test Year Ended December 31, 2014

Schedule C-2

DESCRIPTION	PROFORMA ADJUSTMENTS				
	A	B	C	D	E TOTAL (a)
<b>REVENUES</b>					
RESIDENTIAL				104,553	104,553
IRRIGATION				1,653	1,653
COMMERCIAL AND INDUSTRIAL				53,931	53,931
FUEL COST UNDERBILLED				(160,137)	(160,137)
OTHER OPERATING REVENUES				-	-
<b>EXPENSES</b>					
PURCHASED GAS				-	-
DISTRIBUTION EXPENSE - OPERATIONS				5,268	5,268
DISTRIBUTION EXPENSE - MAINTENANCE				2,991	2,991
CONSUMER ACCOUNTS EXPENSE				4,886	4,886
ADMINISTRATIVE & GENERAL				4,315	4,315
DEPRECIATION & AMORTIZATION				(817)	(817)
TAX EXPENSE - PROPERTY	(12,464)	11,647		-	-
TAX EXPENSE - OTHER				-	-
INTEREST EXPENSE - OTHER				-	-
<b>OPERATING MARGINS</b>	(12,464)	11,647	-	17,460	16,643
INTEREST EXPENSE - LTD	12,464	(11,647)	-	(17,460)	(16,643)
INTEREST - CREDIT LINE			(9,449)		(9,449)
NON-OPERATING MARGINS			10,778		10,778
INTEREST INCOME				-	-
OTHER NON-OPERATING INCOME				-	-
CAPITAL CREDITS				-	-
<b>NET MARGINS</b>	-	-	1,329	-	1,329
	12,464	(11,647)	(1,329)	(17,460)	(17,972)

**SUPPORTING SCHEDULES:**

- A - TO ELIMINATE AMORTIZATION OF ACQUISITION ADJUSTMENT
- B - TO ALLOW DEPRECIATION ON ACQUISITION ADJUSTMENT ASSETS CHARGED TO PLANT PER DECISION NO. 58437 AND NEW PLANT DEPRECIATION FOR 2014 TEST YEAR ADDITIONS
- C - TO ADJUST FOR INTEREST EXPENSE PER AMORTIZATION SCHEDULES
- D - TO ALLOCATE UNDERBILLED FUEL COST TO RATE CLASSES
- E - TO ADJUST FOR INCREASE IN WAGES, PAYROLL TAXES AND PENSION COSTS PER COLLECTIVE BARGAINING AGREEMENT

**GRAHAM COUNTY UTILITIES, INC. - Gas Division**  
**DOCKET NO.**  
**Test Year Ended December 31, 2014**

**COST OF LONG-TERM AND SHORT-TERM DEBT**  
**Schedule D-2**  
**Recap Schedules: N/A**

	<u>END OF TEST YEAR</u>			12/31/14	<u>END OF PROJECTED YEAR</u>		
	<u>WEIGHTED</u>				<u>WEIGHTED</u>		
	<u>OUTSTANDING</u>	<u>INTEREST</u>	<u>RATE</u>	<u>ANNUAL</u>	<u>OUTSTANDING</u>	<u>INTEREST</u>	<u>ANNUAL</u>
	<u>(a)</u>			<u>INTEREST</u>		<u>RATE</u>	<u>INTEREST</u>
<b><u>LONG-TERM:</u></b>							
CFC - LOAN TO PURCHASE SYSTEM - FIXED	-	7.10%		2,096	-	-	-
CFC - LOAN TO PURCHASE SYSTEM - VARIABLE	-	2.35%		224	-	-	-
CFC - CONSTRUCTION 9002	225,840	7.45%		17,708	205,619	7.45%	16,269
CFC - CONSTRUCTION 9003	308,058	4.85%		15,297	295,810	4.85%	14,720
CFC - CONSTRUCTION 9004	760,120	7.00%		53,670	748,900	7.00%	52,918
GCEC - DUE TO TERM OUT	907,454	5.44%		51,689	824,907	5.44%	47,327
<b>TOTAL LONG-TERM DEBT</b>	<b>2,201,472</b>	<b>6.39%</b>		<b>140,683</b>	<b>2,075,236</b>	<b>6.32%</b>	<b>131,234</b>
<b>SHORT-TERM DEBT</b>	670,088	2.90%		11,519	867,653	2.90%	22,297

**GRAHAM COUNTY UTILITIES, INC. - Gas Division**  
**DOCKET NO.**  
**Test Year Ended December 31, 2014**

**COMPARATIVE BALANCE SHEET**  
**Schedule E-1**  
**Recap Schedules: E-5**

	<b>Test Year</b>		
	<b>12/31/2014</b>	<b>12/31/2013</b>	<b>12/31/2012</b>
<b>ASSETS &amp; DEBITS</b>			
Total Utility Plant in Service	\$ 4,956,196	\$ 4,820,350	\$ 4,703,395
Construction Work in Progress	\$ 12,509	\$ (187,012)	\$ (226,297)
Plant Acquisition Adjustment	\$ 415,484	\$ 415,484	\$ 415,484
<b>Total Utility Plant</b>	<b>\$ 5,384,189</b>	<b>\$ 5,048,822</b>	<b>\$ 4,892,582</b>
Accum. Provision for Depreciation	\$ 3,038,376	\$ 2,876,237	\$ 2,713,237
<b>Net Utility Plant</b>	<b>\$ 2,345,813</b>	<b>\$ 2,172,585</b>	<b>\$ 2,179,345</b>
Investment in Associated Organizations	\$ 169,895	\$ 186,123	\$ 192,978
Other Investments	\$ -	\$ -	\$ -
Special Funds	\$ -	\$ -	\$ -
<b>Total Property &amp; Investments</b>	<b>\$ 169,895</b>	<b>\$ 186,123</b>	<b>\$ 192,978</b>
Cash-General Funds	\$ -	\$ -	\$ -
Temporary Investments	\$ -	\$ -	\$ -
Accounts Receivable - Net Sales	\$ 181,779	\$ 223,243	\$ 182,935
Underbilled Consumers Fuel Cost	\$ 160,137	\$ 66,276	\$ 21,241
Materials & Supplies	\$ 76,346	\$ 101,178	\$ 64,480
Prepayments	\$ 13,159	\$ 13,651	\$ 17,399
Other Current & Accrued Assets	\$ -	\$ -	\$ -
<b>Total Current Assets</b>	<b>\$ 431,421</b>	<b>\$ 404,348</b>	<b>\$ 286,055</b>
Deferred Debits	\$ 18,205	\$ 25,341	\$ 15,945
<b>Total Assets &amp; Other Debits</b>	<b>\$ 2,965,334</b>	<b>\$ 2,788,397</b>	<b>\$ 2,674,323</b>
<b>LIABILITIES &amp; CREDITS</b>			
Memberships	\$ 29,300	\$ 29,405	\$ 29,465
Patronage Capital	\$ -	\$ -	\$ -
Operating Margins - Prior Years	\$ (485,072)	\$ (519,367)	\$ (473,342)
Operating Margins - Current Year	\$ 35,965	\$ 27,749	\$ (52,531)
Non Operating Margins	\$ 5,015	\$ 6,546	\$ 6,505
Other Margins and Equities	\$ -	\$ -	\$ -
<b>Total Margins &amp; Equities</b>	<b>\$ (414,792)</b>	<b>\$ (455,667)</b>	<b>\$ (489,903)</b>
<b>Long Term Debt</b>	<b>\$ 2,075,236</b>	<b>\$ 2,201,472</b>	<b>\$ 1,640,216</b>
Current Maturities of Long-Term Debt	\$ 126,236	\$ 268,884	\$ 136,259
Accounts Payable	\$ 341,881	\$ 281,141	\$ 238,085
Accounts Payable - Graham County Electric Cooperative	\$ 670,088	\$ 327,059	\$ 1,006,758
Overbilled Consumers Fuel Cost	\$ -	\$ -	\$ -
Consumer Deposits	\$ 100,790	\$ 96,456	\$ 80,796
Other Current & Accrued Liabilities	\$ 65,895	\$ 69,052	\$ 62,112
<b>Total Current Liabilities</b>	<b>\$ 1,304,890</b>	<b>\$ 1,042,592</b>	<b>\$ 1,524,010</b>
Deferred Credits	\$ -	\$ -	\$ -
<b>Total Liabilities &amp; Other Credits</b>	<b>\$ 2,965,334</b>	<b>\$ 2,788,397</b>	<b>\$ 2,674,323</b>



**GRAHAM COUNTY UTILITIES, INC. - Gas Division**  
**DOCKET NO.**  
**Test Year Ended December 31, 2014**

**COMPARATIVE INCOME STATEMENTS**  
**Schedule E-2**  
**Recap Schedules: E-6**

	Test Year 12/31/2014	12/31/2013	12/31/2012
<b>Operating Revenue</b>	<b>\$ 3,168,159</b>	<b>\$ 3,144,968</b>	<b>\$ 3,044,234</b>
Cost of Purchased Gas	\$ 1,223,721	\$ 1,263,323	\$ 1,175,245
Distribution Expense Operations	\$ 465,313	\$ 384,176	\$ 386,835
Distribution Expense Maintenance	\$ 294,411	\$ 416,690	\$ 367,001
Consumer Accounting	\$ 346,241	\$ 354,408	\$ 310,798
Administrative & General	\$ 480,566	\$ 452,600	\$ 450,976
<b>Total Operations/Maintenance Expense</b>	<b>\$ 2,810,252</b>	<b>\$ 2,871,197</b>	<b>\$ 2,690,855</b>
Depreciation	\$ 162,140	\$ 161,886	\$ 163,408
Interest on Long Term Debt	\$ 140,683	\$ 99,604	\$ 110,238
Interest on Consumer Deposits	\$ 6,256	\$ 5,013	\$ 4,742
Interest on Credit Line	\$ 12,863	\$ 29,323	\$ 34,159
<b>Total Cost of Service</b>	<b>\$ 3,132,194</b>	<b>\$ 3,167,023</b>	<b>\$ 3,003,402</b>
<b>Operation Margins</b>	<b>\$ 35,965</b>	<b>\$ (22,055)</b>	<b>\$ 40,832</b>
Interest Earned	\$ -	\$ -	\$ -
Other Non-Operating Margins	\$ 5,014	\$ 6,546	\$ 6,505
<b>Total Margins</b>	<b>\$ 40,979</b>	<b>\$ (15,509)</b>	<b>\$ 47,337</b>

**GRAHAM COUNTY UTILITIES, INC. - Gas Division**  
**DOCKET NO.**  
**Test Year Ended December 31, 2014**

**DETAIL OF UTILITY PLANT**  
**Schedule E-5**  
**Recap Schedules: A-4, E-1**

	<b>Year End 12/31/2013</b>	<b>Total Net Additions</b>	<b>Test Year Year End 12/31/2014</b>
<b>Distribution Plant</b>			
114.00 Utility Plant Acquisition Adjustment	\$ 415,484		\$ 415,484
301.00 Organizational Costs	\$ 42,522		\$ 42,522
374.00 Land & Land Rights	\$ 1,416		\$ 1,416
376.00 Distribution Mains	\$2,239,539	\$ 64,464	\$2,304,003
380.00 Services	\$ 914,567	\$ 34,823	\$ 949,390
381.00 Meters & Regulators	\$1,400,328	\$ 47,378	\$1,447,706
390.00 Structures & Improvements	\$ 3,309		\$ 3,309
<b>Subtotal</b>	<b>\$5,017,164</b>	<b>\$146,665</b>	<b>\$5,163,829</b>
<b>General Plant</b>			
391.00 Office Equipment	\$ 2,750	\$ -	\$ 2,750
394.00 Shop & Garage Equipment	\$ 149,910	\$ (10,818)	\$ 139,092
396.20 Power Equipment	\$ 66,009	\$ -	\$ 66,009
<b>Subtotal</b>	<b>\$ 218,669</b>	<b>\$ (10,818)</b>	<b>\$ 207,851</b>
<b>Total Plant</b>	<b>\$5,235,833</b>	<b>\$135,847</b>	<b>\$5,371,680</b>
107.20 Construction Work in Progress	\$ (187,012)	\$199,521	\$ 12,509
<b>Total Plant in Service</b>	<b>\$5,048,821</b>	<b>\$335,368</b>	<b>\$5,384,189</b>
<b>Accumulated Depreciation</b>			
114.10 Utility Plant Acquisition Adjustment Amortization	\$ 403,020	\$ 12,464	\$ 415,484
108.60 Distribution Plant	\$2,271,668	\$138,831	\$2,410,499
108.70 General Plant	\$ 201,549	\$ 10,844	\$ 212,393
<b>Subtotal</b>	<b>\$2,876,237</b>	<b>\$162,139</b>	<b>\$3,038,376</b>
<b>Total Net Utility Plant</b>	<b>\$2,172,584</b>	<b>\$173,229</b>	<b>\$2,345,813</b>

**GRAHAM COUNTY UTILITIES, INC. - Gas Division**  
**DOCKET NO.**  
**Test Year Ended December 31, 2014**

**COMPARATIVE DEPARTMENTAL OPERATING INCOME STATEMENTS**  
**Schedule E-6**  
**Recap Schedules: E-2**

All schedules reflect gas division operations.

GRAHAM COUNTY UTILITIES, INC. - Gas Division  
DOCKET NO.  
Test Year Ended December 31, 2014  
Schedule E-7

COMPUTATION OF INCREASE IN  
OPERATING STATISTICS  
TEST YEAR ENDED 9/30/14

<b>GAS STATISTICS (a)</b>	<b>TEST YEAR ENDED 12/31/14</b>	<b>PRIOR YEAR ENDED 12/31/13</b>	<b>PRIOR YEAR ENDED 12/31/12</b>
<b><u>THERMS SOLD</u></b>			
RESIDENTIAL	1,663,475	1,972,263	1,879,970
IRRIGATION	26,300	25,907	27,939
COMMERCIAL	858,063	942,426	923,036
<b>TOTALS</b>	<b>2,547,838</b>	<b>2,940,596</b>	<b>2,830,945</b>
<b><u>AVERAGE NUMBER OF CUSTOMERS</u></b>			
RESIDENTIAL	4,872	4,877	4,858
IRRIGATION	9	9	9
COMMERCIAL	271	266	269
<b>TOTALS</b>	<b>5,152</b>	<b>5,152</b>	<b>5,136</b>
<b><u>AVERAGE THERM USE</u></b>			
RESIDENTIAL	341	404	387
IRRIGATION	2,977	2,879	2,993
COMMERCIAL	3,168	3,541	3,437
<b>TOTALS</b>	<b>6,487</b>	<b>6,824</b>	<b>6,817</b>
AVERAGE ANNUAL REVENUE PER RESIDENTIAL CUSTOMER	458.42	476.12	432.32

**GRAHAM COUNTY UTILITIES, INC. - Gas Division**  
**DOCKET NO.**  
**Test Year Ended December 31, 2014**

**NOTES TO FINANCIAL STATEMENTS**  
**Schedule E-9**

**Accounting Method**

The accounting records of the Cooperative are maintained in accordance with the Uniform System of Accounts as prescribed by the Federal Energy Regulatory Commission for natural gas utilities.

**Depreciation Lives and Methods Employed by Major Classifications of Utility Property**

Provision for depreciation of distribution plant at straight-line composite rates as follows:

Distribution Mains	2.80%
Distribution Mains - Anodes	9.60%
City Gates	2.80%
Services	4.10%
Meters & Regulators	2.60%

Provision for depreciation of general plant rates on a straight-line basis as follows:

Stores Equipment		9.60%
Tools, Shop & Garage Equipment	14.00% to	20.00%
Laboratory Equipment	8.00% to	20.00%

**Income Tax Treatment**

The Cooperative is exempt from federal income taxes under Section 501(c)(12) of the Internal Revenue Code as long as 85% of its revenue is from members for the sole purpose of meeting losses and expenses. For the year ended December 31, 2014, the Cooperative qualified for exemption.

The Cooperative has adopted the "uncertain tax positions" provisions of accounting principles generally accepted in the United States of America. The primary tax position of the Cooperative is its' filing status as a tax exempt entity. The Cooperative determined that it is more likely than not that their tax positions will be sustained upon examination by The Internal Revenue Service (IRS), or other State taxing authority, and that all tax benefits are likely to be realized upon settlement with taxing authorities.

**Interest Rate Used to Charge Interest During Construction, If Applicable**

The Cooperative does not charge interest during construction.

GRAHAM COUNTY UTILITIES, INC. - Gas Division  
DOCKET NO.  
Test Year Ended December 31, 2014

PROJECTED INCOME STATEMENT - PRESENT & PROPOSED RATES  
Schedule F-1  
Recap Schedules: E-2

	Present Rates  Test Year	Proposed Rates Test Year w/ Rate Change
<b>Revenue from Gas Sales</b>	<b>\$ 3,033,696</b>	<b>\$ 3,147,933</b>
Purchased Gas Adjuster	\$ 93,799	\$ 93,799
Misc. Service Revenue	\$ 40,664	\$ 40,664
<b>Subtotal Other Gas Revenue</b>	<b>\$ 134,463</b>	<b>\$ 134,463</b>
<b>TOTAL REVENUE</b>	<b>\$ 3,168,159</b>	<b>\$ 3,282,396</b>
<b>Expenses</b>		
Cost of Gas	\$ 1,223,721	\$ 1,223,721
Mains & Services	\$ 264,215	\$ 264,215
Metering	\$ 121,815	\$ 121,815
Blue Stake	\$ 66,178	\$ 66,178
Rents	\$ 13,105	\$ 13,105
<b>Subtotal Distribution/Operations</b>	<b>\$ 465,313</b>	<b>\$ 465,313</b>
Mains & Services	\$ 293,962	\$ 293,962
Measuring & Stations	\$ 449	\$ 449
<b>Subtotal Distribution/Maintenance</b>	<b>\$ 294,411</b>	<b>\$ 294,411</b>
Meter Reading	\$ 91,184	\$ 91,184
Consumer Expense	\$ 255,057	\$ 255,057
<b>Subtotal Consumer Accounting</b>	<b>\$ 346,241</b>	<b>\$ 346,241</b>
Admin & General	\$ 207,865	\$ 207,865
Office Supplies & Expense	\$ 85,929	\$ 85,929
Outside Services	\$ 25,381	\$ 25,381
Miscellaneous General	\$ 123,871	\$ 123,871
General Plant Maintenance	\$ 37,520	\$ 37,520
<b>Subtotal Administrative &amp; General</b>	<b>\$ 480,566</b>	<b>\$ 480,566</b>
<b>TOTAL OPER/MAINT EXP.</b>	<b>\$ 2,810,252</b>	<b>\$ 2,810,252</b>
Depreciation Distribution	\$ 138,831	\$ 138,831
Depreciation General Plant	\$ 10,844	\$ 10,844
Utility Plant Acquisition Amortization	\$ 12,465	\$ 12,465
<b>Subtotal Depreciation</b>	<b>\$ 162,140</b>	<b>\$ 162,140</b>
Interest Long Term Debt	\$ 140,683	\$ 140,683
Interest Consumer Deposits	\$ 6,256	\$ 6,256
Interest Credit Line	\$ 12,863	\$ 12,863
<b>Subtotal Interest</b>	<b>\$ 159,802</b>	<b>\$ 159,802</b>
<b>TOTAL COST OF SERVICE</b>	<b>\$ 3,132,194</b>	<b>\$ 3,132,194</b>
<b>OPERATING MARGINS</b>	<b>\$ 35,965</b>	<b>\$ 150,202</b>

GRAHAM COUNTY UTILITIES, INC. - Gas Division  
DOCKET NO.  
Test Year Ended December 31, 2014

PROJECTED CHANGES IN FINANCIAL POSITION  
Schedule F-2  
Recap Schedules: A-5, F-3

	Test Year 12/31/2014	Adjusted Test Year	Proposed Rates
<b><u>Sources of Funds</u></b>			
Net Margins	\$ 40,980.00	\$ (14,345.00)	141,355.00
Depreciation	\$ 162,139.00	\$ (9,436.00)	152,703.00
Capital Credit Non-Cash	\$ 16,228.00		16,228.00
Deferred Charges	\$ -		-
Deferred Credits & CIAC	\$ (199,521.00)		(199,521.00)
Under Billed Fuel Cost - Net	\$ (93,861.00)		(93,861.00)
Accounts Receivable	\$ 41,464.00		41,464.00
Inventories & Other Current Assets	\$ (32,460.00)		(32,460.00)
Payables & Accrued Expenses	\$ 57,582.00		57,582.00
<b>Total Funds from Operations</b>	<b>\$ (7,449.00)</b>	<b>\$ (23,781.00)</b>	<b>83,490.00</b>
Graham County Electric - Term Loan			-
Advances from Graham County Electric Credit Line	\$ 5,113,834.00	\$ 23,781.00	5,137,615.00
<b>Total Funds from Financing</b>	<b>\$ 5,113,834.00</b>	<b>\$ 23,781.00</b>	<b>5,137,615.00</b>
<b>Total Funds Received</b>	<b>\$ 5,106,385.00</b>	<b>\$ -</b>	<b>5,221,105.00</b>
<b><u>Application of Funds</u></b>			
Gross Additions to Plant	\$ (135,846.00)		(135,846.00)
Investments in Associated Organizations			-
Payments on Long Term Debt-CFC	\$ (118,762.00)		(118,762.00)
Payments on Graham County Electric Term Loan	\$ (78,187.00)		(78,187.00)
Payments on Aid to Construction Refunds	\$ (11,518.00)		(11,518.00)
Memberships	\$ (105.00)		(105.00)
Consumer Deposits	\$ 4,334.00		4,334.00
Payments on Graham County Electric Credit Line	\$ (4,766,301.00)		(4,881,021.00)
<b>Total Funds Applied</b>	<b>\$ (5,106,385.00)</b>	<b>\$ -</b>	<b>(5,221,105.00)</b>
<b>Change in Funds All Activities</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>
<b>Beginning Cash General Funds</b>	<b>\$ -</b>		<b>-</b>
<b>Ending Cash General Funds</b>	<b>\$ -</b>	<b>\$ -</b>	<b>-</b>

**GRAHAM COUNTY UTILITIES, INC. - Gas Division**  
**DOCKET NO.**  
**Test Year Ended December 31, 2014**

**PROJECTED CONSTRUCTION REQUIREMENTS**

**Schedule F-3**

**Recap Schedules: A-4, F-2**

		Distribution	General	Total
	12/31/12	\$ 74,947	\$ 15,442	\$ 90,389
	12/31/13	\$ 103,727	\$ 13,227	\$ 116,954
	12/31/14	\$ 146,665	\$ 4,307	\$ 150,972
Projected	12/31/15	\$ 80,000	\$ -	\$ 80,000
Projected	12/31/16	\$ 80,000	\$ -	\$ 80,000



**GRAHAM COUNTY UTILITIES, INC. - Gas Division**  
**DOCKET NO.**  
**Test Year Ended December 31, 2014**

**ASSUMPTIONS USED IN DEVELOPING PROJECTION**  
**Schedule F-4**

- 1 Customer growth  
No adjustment for customer growth was made
- 2 Growth in consumption and customer demand  
No adjustment to test year customer usage was made
- 3 Changes in expenses  
Proforma adjustments A & B were made to compile with ACC Decision No. 58437.  
Proforma adjustment E was made due to a collective bargaining agreement currently in force.
- 4 Construction requirements including production reserves and changes in plant capacity  
No adjustment was made for projected construction. GCU is a distribution cooperative and has no production facilities.
- 5 Capital structure changes  
All capital structure changes are current and reflected in the test year data. No changes were made beyond test year data.
- 6 Financing costs, interest rates  
Financing costs are adjusted to actual based on retiring initial CFC debt and incurring long term debt due to Graham County Electric Cooperative, as required by ACC Decision No. 74002

GRAHAM COUNTY UTILITIES, INC. - Gas Division

DOCKET NO.

Test Year Ended December 31, 2014

SUMMARY OF REVENUES BY CUSTOMER CLASSIFICATION - PRESENT AND PROPOSED RATES

Schedule H-1

Recap Schedules: A-1, H-2

	Present Rates	Proposed Rates	Revenue Increase	Percent Increase
Residential Consumer	\$ 1,497,269	\$ 1,575,512	\$ 78,243	5.2%
Commercial Consumer	\$ 399,657	\$ 434,998	\$ 35,342	8.8%
Irrigation Consumer	\$ 7,231	\$ 7,883	\$ 652	9.0%
<b>Totals</b>	<b>\$ 1,904,156</b>	<b>\$ 2,018,393</b>	<b>\$ 114,237</b>	<b>5.99934%</b>
Purchase Gas Adjustor Billed	\$ 1,129,540	\$ 1,129,540		
Prior Year Bill Corrections				
Minimum Bill Contracts				
<b>Total - Test Year</b>	<b>\$ 3,033,696</b>	<b>\$ 3,147,933</b>		
From C-1 Revenue from Gas Sales	\$ 3,033,696			

GRAHAM COUNTY UTILITIES, INC. - Gas Division  
DOCKET NO.  
Test Year Ended December 31, 2014

ANALYSIS OF REVENUE BY DETAILED CLASS  
Schedule H-2  
Recap Schedules: H-1

		Billing Units	Present Rates		Proposed Rates		Revenue	Percent
			Charge	Revenue	Charge	Revenue	Increase	Increase
<b>Residential Consumer</b>								
System Charge		56,684	\$ 15.00	\$ 850,260	\$ 16.30	\$ 923,949	\$ 73,689	8.7%
Therm Charge		1,663,475	\$ 0.37800	\$ 628,794	\$ 0.37800	\$ 628,794	\$ -	0.0%
Prorated Partial System Charge		1,834		\$ 18,215		\$ 22,769	\$ 4,554	25.0%
Revenue Totals				\$ 1,497,269		\$ 1,575,512	\$ 78,243	5.2%
<b>Total Residential</b>	<b>Sys Chg</b>	<b>58,518</b>		<b>\$ 1,497,269</b>		<b>\$ 1,575,512</b>	<b>\$ 78,243</b>	<b>5.2%</b>
	<b>Therms</b>	<b>1,663,475</b>						
<b>Commercial Consumer</b>								
System Charge		3,220	\$ 28.00	\$ 90,160	\$ 33.60	\$ 108,192	\$ 18,032	20.0%
Therm Charge		858,063	\$ 0.36000	\$ 308,903	\$ 0.38000	\$ 326,064	\$ 17,161	5.6%
Prorated Partial System Charge		35		\$ 594		\$ 743	\$ 149	25.0%
Revenue Totals				\$ 399,657		\$ 434,998	\$ 35,342	8.8%
<b>Total Medium</b>	<b>Sys Chg</b>	<b>3,255</b>		<b>\$ 399,657</b>		<b>\$ 434,998</b>	<b>\$ 35,342</b>	<b>8.8%</b>
	<b>Therms</b>	<b>858,063</b>						
<b>Irrigation Consumer</b>								
System Charge		96	\$ 24.00	\$ 2,304	\$ 27.55	\$ 2,645	\$ 341	14.8%
Therm Charge		26,300	\$ 0.18000	\$ 4,734	\$ 0.19000	\$ 4,997	\$ 263	5.6%
Prorated Partial System Charge		10		\$ 193		\$ 241	\$ 48	25.0%
Revenue Totals				\$ 7,231		\$ 7,883	\$ 652	9.0%
<b>Total Large</b>	<b>Sys Chg</b>	<b>106</b>		<b>\$ 7,231</b>		<b>\$ 7,883</b>	<b>\$ 652</b>	<b>9.0%</b>
	<b>Therms</b>	<b>26,300</b>						
<b>Totals</b>	<b>Sys Chg</b>	<b>61,879</b>		<b>\$ 1,904,156</b>		<b>\$ 2,018,393</b>	<b>\$ 114,237</b>	<b>5.99934%</b>
	<b>Therms</b>	<b>2,547,838</b>						
Purchase Cost Adjustor				\$ 1,129,540				
<b>Total - Test Year</b>				<b>\$ 3,033,696</b>				
From C-1 Revenue from Gas Sales				\$ 3,033,696				

ANALYSIS OF REVENUE - RESIDENTIAL CONSUMERS

		Billing Units	Present Rates		Proposed Rates		Revenue	Percent
			Charge	Revenue	Charge	Revenue	Increase	Increase
<b>Residential Consumer</b>								
System Charge		56,684	\$ 15.00	\$ 850,260	\$ 16.30	\$ 923,949	\$ 73,689	8.7%
Therm Charge		1,663,475	\$ 0.37800	\$ 628,794	\$ 0.37800	\$ 628,794	\$ -	0.0%
Prorated Partial System Charge		1,834		\$ 18,215		\$ 22,769	\$ 4,554	25.0%
Revenue Totals				\$ 1,497,269		\$ 1,575,512	\$ 78,243	5.2%
<b>Total Residential</b>	<b>Sys Chg</b>	<b>58,518</b>		<b>\$ 1,497,269</b>		<b>\$ 1,575,512</b>	<b>\$ 78,243</b>	<b>5.2%</b>
	<b>Therms</b>	<b>1,663,475</b>						

**GRAHAM COUNTY UTILITIES, INC. - Gas Division**  
**DOCKET NO.**  
**Test Year Ended December 31, 2014**

**CHANGES IN REPRESENTATIVE RATE SCHEDULES**  
**Schedule H-3**

	<b>Present Rates</b>	<b>Proposed Rates</b>	<b>Change</b>
<b>Residential Consumer</b>			
System Charge	\$ 15.00	\$ 16.30	\$ 1.30
Therm Charge	0.37800	0.37800	0.00000
<b>Commercial Consumer</b>			
System Charge	\$ 28.00	\$ 33.60	\$ 5.60
Therm Charge	0.36000	0.38000	0.02000
<b>Irrigation Consumer</b>			
System Charge	\$ 24.00	\$ 27.55	\$ 3.55
Therm Charge	0.18000	0.19000	0.01000

GRAHAM COUNTY UTILITIES, INC. - Gas Division  
DOCKET NO.  
Test Year Ended December 31, 2014

TYPICAL BILL ANALYSIS - BASE REVENUE ONLY  
Schedule H-4.0

Residential Consumer	Present Rates	Proposed Rates	\$ Change	% Change
System Charge	\$ 15.00	\$ 16.30	\$ 1.30	8.67%
Therm Charge	\$ 0.37800	\$ 0.37800	\$ -	0.00%
Usage				
0	\$ 15.00	\$ 16.30	\$ 1.30	8.67%
25	\$ 24.45	\$ 25.75	\$ 1.30	5.32%
46	\$ 33.69	\$ 33.69	\$ -	0.01%
50	\$ 33.90	\$ 35.20	\$ 1.30	3.83%
59 **	\$ 37.30	\$ 38.60	\$ 1.30	3.49%
60	\$ 37.68	\$ 38.98	\$ 1.30	3.45%
70	\$ 41.46	\$ 42.76	\$ 1.30	3.14%
80	\$ 45.24	\$ 46.54	\$ 1.30	2.87%
90	\$ 49.02	\$ 50.32	\$ 1.30	2.65%
100	\$ 52.80	\$ 54.10	\$ 1.30	2.46%
150	\$ 71.70	\$ 73.00	\$ 1.30	1.81%
200	\$ 90.60	\$ 91.90	\$ 1.30	1.43%
250	\$ 109.50	\$ 110.80	\$ 1.30	1.19%
300	\$ 128.40	\$ 129.70	\$ 1.30	1.01%
400	\$ 166.20	\$ 167.50	\$ 1.30	0.78%
500	\$ 204.00	\$ 205.30	\$ 1.30	0.64%
750	\$ 298.50	\$ 299.80	\$ 1.30	0.44%
1000	\$ 393.00	\$ 394.30	\$ 1.30	0.33%
1500	\$ 582.00	\$ 583.30	\$ 1.30	0.22%

\*Median - Winter Usage

\*\*Average - Winter Usage

GRAHAM COUNTY UTILITIES, INC. - Gas Division  
DOCKET NO.  
Test Year Ended December 31, 2014

TYPICAL BILL ANALYSIS - BASE REVENUE ONLY  
Schedule H-4.1

Commercial Consumer	Present Rates	Proposed Rates	\$ Change	% Change
System Charge	\$ 28.00	\$ 33.60	\$ 5.60	20.00%
Therm Charge	\$ 0.36000	\$ 0.38000	\$ 0.02000	5.56%
Usage				
0	\$ 28.00	\$ 33.60	\$ 5.60	20.00%
10	\$ 31.60	\$ 37.40	\$ 5.80	18.35%
20	\$ 35.20	\$ 41.20	\$ 6.00	17.05%
30	\$ 38.80	\$ 45.00	\$ 6.20	15.98%
40	\$ 42.40	\$ 48.80	\$ 6.40	15.09%
50	\$ 46.00	\$ 52.60	\$ 6.60	14.35%
75	\$ 55.00	\$ 62.10	\$ 7.10	12.91%
100	\$ 64.00	\$ 71.60	\$ 7.60	11.88%
125	\$ 73.00	\$ 81.10	\$ 8.10	11.10%
150	\$ 82.00	\$ 90.60	\$ 8.60	10.49%
175	\$ 91.00	\$ 100.10	\$ 9.10	10.00%
200	\$ 100.00	\$ 109.60	\$ 9.60	9.60%
300	\$ 136.00	\$ 147.60	\$ 11.60	8.53%
400	\$ 172.00	\$ 185.60	\$ 13.60	7.91%
469 **	\$ 196.84	\$ 211.82	\$ 14.98	7.61%
500	\$ 208.00	\$ 223.60	\$ 15.60	7.50%
600	\$ 244.00	\$ 261.60	\$ 17.60	7.21%
700	\$ 280.00	\$ 299.60	\$ 19.60	7.00%
800	\$ 316.00	\$ 337.60	\$ 21.60	6.84%
900	\$ 352.00	\$ 375.60	\$ 23.60	6.70%
1000	\$ 388.00	\$ 413.60	\$ 25.60	6.60%
2000	\$ 748.00	\$ 793.60	\$ 45.60	6.10%
3000	\$ 1,108.00	\$ 1,173.60	\$ 65.60	5.92%
4000	\$ 1,468.00	\$ 1,553.60	\$ 85.60	5.83%
5000	\$ 1,828.00	\$ 1,933.60	\$ 105.60	5.78%
10000	\$ 3,628.00	\$ 3,833.60	\$ 205.60	5.67%
15000	\$ 5,428.00	\$ 5,733.60	\$ 305.60	5.63%
20000	\$ 7,228.00	\$ 7,633.60	\$ 405.60	5.61%
25000	\$ 9,028.00	\$ 9,533.60	\$ 505.60	5.60%
26000	\$ 9,388.00	\$ 9,913.60	\$ 525.60	5.60%

\*Median - Winter Usage \*

\*\*Average - Winter Usage

GRAHAM COUNTY UTILITIES, INC. - Gas Division  
DOCKET NO.  
Test Year Ended December 31, 2014

TYPICAL BILL ANALYSIS - BASE REVENUE ONLY  
Schedule H-4.2

Irrigation Consumer		Present	Proposed	\$	%
		Rates	Rates	Change	Change
System Charge		\$ 24.00	\$ 27.55	\$ 3.55	14.79%
Therm Charge		\$ 0.18000	\$ 0.19000	\$ 0.01000	5.56%
Usage					
	0	\$ 24.00	\$ 27.55	\$ 3.55	14.79%
	50	\$ 33.00	\$ 37.05	\$ 4.05	12.27%
	100	\$ 42.00	\$ 46.55	\$ 4.55	10.83%
	150	\$ 51.00	\$ 56.05	\$ 5.05	9.90%
	200	\$ 60.00	\$ 65.55	\$ 5.55	9.25%
	250	\$ 69.00	\$ 75.05	\$ 6.05	8.77%
	300	\$ 78.00	\$ 84.55	\$ 6.55	8.40%
	350	\$ 87.00	\$ 93.55	\$ 6.55	7.53%
	400	\$ 96.00	\$ 103.55	\$ 7.55	7.86%
	500	\$ 114.00	\$ 122.55	\$ 8.55	7.50%
	503 **	\$ 114.54	\$ 123.12	\$ 8.58	7.49%
	750	\$ 159.00	\$ 170.05	\$ 11.05	6.95%
	1000	\$ 204.00	\$ 217.55	\$ 13.55	6.64%
	1250	\$ 249.00	\$ 265.05	\$ 16.05	6.45%
	1500	\$ 294.00	\$ 312.55	\$ 18.55	6.31%
	2000	\$ 384.00	\$ 407.55	\$ 23.55	6.13%
	2500	\$ 474.00	\$ 502.55	\$ 28.55	6.02%
	3000	\$ 564.00	\$ 597.55	\$ 33.55	5.95%

**Average Summer Usage**

\*\*Average - Summer Usage

**GRAHAM COUNTY UTILITIES, INC. - Gas Division****DOCKET NO.****Test Year Ended December 31, 2014****BILL COUNT****Schedule H-5.0****Residential Consumer**

START BLOCK	END BLOCK	# BILLS BLOCK	CUMM.	% BILLS BLOCK	CUMM.	# Therms BLOCK	CUMM.	% Therms BLOCK	CUMM.
0	0	2,083	2,083	3.56%	3.56%	0	0	0.00%	0.00%
1	10	16,723	18,806	28.58%	32.14%	106,884	106,884	6.43%	6.43%
11	25	20,201	39,007	34.52%	66.66%	343,446	450,330	20.65%	27.07%
26	50	9,927	48,934	16.96%	83.62%	356,823	807,153	21.45%	48.52%
51	75	4,721	53,655	8.07%	91.69%	291,190	1,098,343	17.50%	66.03%
76	100	2,447	56,102	4.18%	95.87%	212,118	1,310,461	12.75%	78.78%
101	125	1,220	57,322	2.08%	97.96%	135,648	1,446,109	8.15%	86.93%
126	150	562	57,884	0.96%	98.92%	76,967	1,523,076	4.63%	91.56%
151	200	457	58,341	0.78%	99.70%	77,674	1,600,750	4.67%	96.23%
201	300	145	58,486	0.25%	99.95%	33,819	1,634,569	2.03%	98.26%
301	500	23	58,509	0.04%	99.98%	7,918	1,642,487	0.48%	98.74%
501	2,500	9	58,518	0.02%	100.00%	20,988	1,663,475	1.26%	100.00%

<b>Totals</b>	<b>58,518</b>	<b>1,663,475</b>
from H-2	58,518	1,663,475

<b>AVERAGE NUMBER OF CUSTOMERS</b>	<b>4,877</b>
<b>AVERAGE CONSUMPTION</b>	<b>28</b>
<b>MEDIAN CONSUMPTION</b>	<b>17</b>



**GRAHAM COUNTY UTILITIES, INC. - Gas Division**

**DOCKET NO.**

**Test Year Ended December 31, 2014**

**BILL COUNT**

**Schedule H-5.1**

**Commercial Consumer**

START BLOCK	END BLOCK	# BILLS		% BILLS		# Therms		% Therms	
		BLOCK	CUMM.	BLOCK	CUMM.	BLOCK	CUMM.	BLOCK	CUMM.
0	0	756	756	23.23%	23.23%	0	0	0.00%	0.00%
1	50	1,390	2,146	42.70%	65.93%	21,940	21,940	2.56%	2.56%
51	100	303	2,449	9.31%	75.24%	21,707	43,647	2.53%	5.09%
101	250	295	2,744	9.06%	84.30%	48,871	92,518	5.70%	10.78%
251	500	220	2,964	6.76%	91.06%	77,431	169,949	9.02%	19.81%
501	750	111	3,075	3.41%	94.47%	68,532	238,481	7.99%	27.79%
751	1,000	48	3,123	1.47%	95.94%	41,726	280,207	4.86%	32.66%
1,001	1,250	24	3,147	0.74%	96.68%	26,808	307,015	3.12%	35.78%
1,251	1,500	9	3,156	0.28%	96.96%	12,314	319,329	1.44%	37.22%
1,501	1,750	12	3,168	0.37%	97.33%	19,552	338,881	2.28%	39.49%
1,751	2,000	13	3,181	0.40%	97.73%	24,116	362,997	2.81%	42.30%
2,001	2,500	6	3,187	0.18%	97.91%	13,731	376,728	1.60%	43.90%
2,501	25,000	68	3,255	2.09%	100.00%	481,335	858,063	56.10%	100.00%

**Totals** **3,255**

**858,063**

from H-2 **3,255**

**858,063**

**AVERAGE NUMBER OF CUSTOMERS**

**271**

**AVERAGE CONSUMPTION**

**264**

**MEDIAN CONSUMPTION**

**17**

**GRAHAM COUNTY UTILITIES, INC. - Gas Division****DOCKET NO.****Test Year Ended December 31, 2014****BILL COUNT****Schedule H-5.2****Irrigation Consumer**

START BLOCK	END BLOCK	# BILLS BLOCK	CUMM.	% BILLS BLOCK	CUMM.	# Therms BLOCK	CUMM.	% Therms BLOCK	CUMM.
0	0	37	37	34.91%	34.91%	0	0	0.00%	0.00%
1	50	28	65	26.42%	61.32%	206	206	0.78%	0.78%
51	100	5	70	4.72%	66.04%	355	561	1.35%	2.13%
101	250	9	79	8.49%	74.53%	1,566	2,127	5.95%	8.09%
251	500	6	85	5.66%	80.19%	2,183	4,310	8.30%	16.39%
501	750	5	90	4.72%	84.91%	3,272	7,582	12.44%	28.83%
751	1,000	6	96	5.66%	90.57%	5,276	12,858	20.06%	48.89%
1,001	1,250	4	100	3.77%	94.34%	4,430	17,288	16.84%	65.73%
1,251	1,500	4	104	3.77%	98.11%	5,548	22,836	21.10%	86.83%
1,501	1,750	1	105	0.94%	99.06%	1,651	24,487	6.28%	93.11%
1,751	2,000	1	106	0.94%	100.00%	1,813	26,300	6.89%	100.00%
2,001	2,500	0	106	0.00%	100.00%	0	26,300	0.00%	100.00%
2,501	3,000	0	106	0.00%	100.00%	0	26,300	0.00%	100.00%

<b>Totals</b>	<b>106</b>	<b>26,300</b>
from H-2	106	26,300

<b>AVERAGE NUMBER OF CUSTOMERS</b>	<b>9</b>
<b>AVERAGE CONSUMPTION</b>	<b>248</b>
<b>MEDIAN CONSUMPTION</b>	<b>16</b>

**GRAHAM COUNTY UTILITIES, INC.**

**PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION**

**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

**AND**

**REPORT OF CERTIFIED PUBLIC ACCOUNTANTS**

**GRAHAM COUNTY UTILITIES, INC.  
PIMA, ARIZONA**

**FINANCIAL STATEMENTS WITH ACCOMPANYING INFORMATION  
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

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BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.  
certified public accountants  
PHONE: (800) 747-3800  
FAX: (800) 747-3815  
8215 Nashville Avenue  
LUBBOCK, TEXAS 79423-1954

**Independent Auditor's Report**

Board of Directors  
Graham County Utilities, Inc.  
Pima, Arizona

**Report on the Financial Statements**

We have audited the accompanying balance sheets of Graham County Utilities, Inc. (the Cooperative), as of September 30, 2014 and 2013, and the related statements of income and accumulated margins, (deficits) and cash flows for the years then ended, and the related notes to the financial statements.

***Management's Responsibility for the Financial Statements***

Management is responsible for the preparation and fair presentation of these financial statements in accordance with accounting principles generally accepted in the United States of America; this includes the design, implementation, and maintenance of internal control relevant to the preparation and fair presentation of financial statements that are free from material misstatement, whether due to fraud or error.

***Auditor's Responsibility***

Our responsibility is to express an opinion on these financial statements based on our audits. We conducted our audits in accordance with auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free from material misstatement.

An audit involves performing procedures to obtain audit evidence about the amounts and disclosures in the financial statements. The procedures selected depend on the auditor's judgment, including the assessment of the risks of material misstatement of the financial statements, whether due to fraud or error. In making those risk assessments, the auditor considers internal control relevant to the entity's preparation and fair presentation of the financial statements in order to design audit procedures that are appropriate in the circumstances, but not for the purpose of expressing an opinion on the effectiveness of the entity's internal control. Accordingly, we express no such opinion. An audit also includes evaluating the appropriateness of accounting policies used and the reasonableness of significant accounting estimates made by management, as well as evaluating the overall presentation of the financial statements.

We believe that the audit evidence we have obtained is sufficient and appropriate to provide a basis for our audit opinion.

**Opinion**

In our opinion, the financial statements referred to above present fairly, in all material respects, the financial position of Graham County Utilities, Inc. as of September 30, 2014 and 2013, and the results of its operations and its cash flows for the years then ended in conformity with accounting principles generally accepted in the United States of America.

**Other Reporting Required by Government Auditing Standards**

In accordance with *Government Auditing Standards*, we have also issued a report dated November 10, 2014, on our consideration of the Cooperative's internal control over financial reporting and on our test of its compliance with certain provision of laws, regulations, contracts, and grant agreements and other matters. The purpose of that report is to describe the scope of our testing of internal control over financial reporting and compliance and the results of that testing, and not to provide an opinion on the internal control over financial reporting or on compliance. That report is an integral part of an audit performed in accordance with *Government Auditing Standards* and in considering the Cooperative's internal control over financial reporting and compliance.

*Balinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

Lubbock, Texas

November 10, 2014

## FINANCIAL STATEMENTS

-3-  
GRAHAM COUNTY UTILITIES, INC.

Exhibit A

**BALANCE SHEET  
SEPTEMBER 30, 2014 AND 2013**

**ASSETS**

	September 30,	
	2014	2013
<b>UTILITY PLANT</b>		
Plant in Service	\$ 8,733,937	\$ 8,572,226
Construction Work in Progress	112,144	64,599
Plant Acquisition Adjustment	<u>1,025,652</u>	<u>1,025,652</u>
	\$ 9,871,733	\$ 9,662,477
Less: Accumulated Provision for Depreciation and Amortization	<u>5,537,206</u>	<u>5,244,762</u>
	<u>\$ 4,334,527</u>	<u>\$ 4,417,715</u>
<b>OTHER PROPERTY AND INVESTMENTS</b>		
Investments in Associated Organizations	<u>\$ 292,414</u>	<u>\$ 311,668</u>
<b>CURRENT ASSETS</b>		
Cash - Restricted	\$ 75,279	\$ 63,906
Accounts Receivable (Less allowance for uncollectibles of \$54,314 in 2014 and \$61,447 in 2013)	71,397	103,791
Underbilled Consumers Fuel Cost	19,305	
Materials and Supplies	130,447	174,185
Other Current and Accrued Assets	<u>28,162</u>	<u>26,376</u>
Total Current Assets	<u>\$ 324,590</u>	<u>\$ 368,258</u>
<b>DEFERRED CHARGES</b>	<u>\$ 25,859</u>	<u>\$ 39,667</u>
<b>TOTAL ASSETS</b>	<u>\$ 4,977,390</u>	<u>\$ 5,137,308</u>

**EQUITIES AND LIABILITIES**

<b>MEMBERS' EQUITY</b>		
Memberships	\$ 31,575	\$ 31,515
Accumulated Margins (Deficits)	<u>(158,174)</u>	<u>(208,974)</u>
	<u>\$ (126,599)</u>	<u>\$ (177,459)</u>
<b>LONG-TERM DEBT</b>		
CFC Mortgage Notes Less Current Maturities	\$ 1,484,427	\$ 1,532,923
USDA Rural Development Note Payable Less Current Maturities	1,406,017	1,434,134
Note Payable - Graham County Electric Coop	<u>845,971</u>	<u>927,400</u>
	<u>\$ 3,736,415</u>	<u>\$ 3,894,457</u>
<b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 157,330	\$ 339,300
Accounts Payable - Other	116,060	124,651
Accounts Payable - Graham County Electric Coop	855,213	452,189
Overbilled Consumers Fuel Cost		48,904
Customers' Deposits and Prepayments	109,070	105,366
Accrued Taxes	83,806	85,716
Accrued Interest	14,850	14,147
Accrued Payroll	<u>31,245</u>	<u>17,815</u>
Total Current Liabilities	<u>\$ 1,367,574</u>	<u>\$ 1,188,088</u>
<b>DEFERRED CREDITS</b>	<u>\$ 0</u>	<u>\$ 232,222</u>
<b>TOTAL EQUITIES AND LIABILITIES</b>	<u>\$ 4,977,390</u>	<u>\$ 5,137,308</u>

See accompanying notes to financial statements.



GRAHAM COUNTY UTILITIES, INC.

Exhibit B

STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)  
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	September 30,	
	2014	2013
OPERATING REVENUES	\$ 3,938,492	\$ 3,924,868
OPERATING EXPENSES		
Purchased Gas	\$ 1,215,430	\$ 1,263,323
Power for Pumping	28,072	40,978
Operations	527,760	464,614
Maintenance	503,202	609,414
Consumer Accounts	451,268	446,333
Administrative and General	631,816	587,973
Depreciation and Amortization	292,447	282,841
Other Interest	86,023	45,620
Total Operating Expenses	\$ 3,736,018	\$ 3,741,096
OPERATING MARGINS - BEFORE FIXED CHARGES	\$ 202,474	\$ 183,772
Interest on Long-Term Debt	163,238	173,628
OPERATING MARGINS - AFTER FIXED CHARGES	\$ 39,236	\$ 10,144
Capital Credits	11,252	18,185
NET OPERATING MARGINS	\$ 50,488	\$ 28,329
NONOPERATING MARGINS		
Interest	312	569
NET MARGINS	\$ 50,800	\$ 28,898
ACCUMULATED DEFICIT - BEGINNING OF YEAR	(208,974)	(237,872)
ACCUMULATED DEFICIT - END OF YEAR	\$ (158,174)	\$ (208,974)

See accompanying notes to financial statements.

GRAHAM COUNTY UTILITIES, INC.

Exhibit C

STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013

	September 30,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margin	\$ 50,800	\$ 28,898
Adjustments to Reconcile Net Margins to		
Net Cash From Operating Activities		
Depreciation and Amortization	292,447	282,841
Capital Credits - Noncash	(11,252)	(18,184)
Underbilled Fuel Cost	(68,209)	(82,579)
Deferred Charges	13,808	(2,902)
Deferred Credits	(232,222)	
Accounts Receivable	32,394	(9,128)
Inventories and Other Current Assets	41,952	(34,061)
Payables and Accrued Expenses	7,335	(147,847)
Net Payments (to) from - Graham County Electric Cooperative	403,024	(583,110)
Net Cash From Operating Activities	\$ 530,077	\$ (566,072)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Plant	\$ (209,257)	\$ (200,094)
Cash - Restricted	(11,373)	(96)
Investments in Associated Organizations	30,506	18,850
Net Cash From Investing Activities	\$ (190,124)	\$ (181,340)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Long-Term Debt to CFC	\$ (313,266)	\$ (226,623)
Payments on Long-Term Debt to USDA	(26,747)	(25,610)
Advances from Graham County Electric		1,000,000
Memberships	60	(355)
Net Cash From Financing Activities	\$ (339,953)	\$ 747,412
<b>CHANGE IN CASH</b>	\$ 0	\$ 0
<b>CASH - BEGINNING OF YEAR</b>	0	0
<b>CASH - END OF YEAR</b>	\$ 0	\$ 0
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Cash Paid During the Year for:		
Interest on Long-Term Debt	\$ 220,684	\$ 178,629
Federal Income Tax	\$ 0	\$ 0

See accompanying notes to financial statements.

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**1. Nature of Operations and Summary of Significant Accounting Policies**

**Nature of Operations**

Graham County Utilities, Inc. (the Cooperative) is organized as a cooperative to provide gas and water utility services to customers in Graham County, Arizona. The Cooperative was incorporated February 14, 1989, and began operations in November, 1989, with the purchase of assets and liabilities from two private utility companies. The Cooperative has been granted exemption from Federal income taxes under Internal Revenue Code Section 501(c)(12).

**Basis of Accounting**

The Cooperative accounts for assets, liabilities, income, and expenses separately for each utility service furnished. Separate accounting is maintained for the gas department and the water department.

Recognition is given to all services rendered and facilities provided by each department, as well as those services provided by Graham County Electric Cooperative, Inc. under the operating and management agreement executed by both Cooperatives. These services are billed at predetermined rates. The accrual basis of accounting is followed in all departments.

**Operating Revenues**

Gas and water revenues are under the jurisdiction of the Arizona Corporation Commission.

The Cooperative records revenues as billed to the customers on a monthly basis. Revenue is not accrued for utility services delivered but not billed at the end of each month. The unbilled and unrecorded revenue at September 30, 2014 and 2013, was estimated to be \$75,163 and \$71,274, respectively, in the gas department and \$56,784 and \$50,431, respectively, in the water department. A recent FASB pronouncement related to revenue recognition will require the Cooperative to recognize unbilled revenue in future financial statements. The requirement is effective for annual reporting periods beginning after December 15, 2017.

The Cooperative's tariffs include an adjustment for flow-through of purchased natural gas costs. In order to match fuel costs and related revenues, costs billed in advance are recorded as overbilled consumers fuel cost and costs to be billed in the subsequent period are recorded as underbilled consumers fuel cost. For the years ended September 30, 2014, the Cooperative was underbilled \$19,305, and for September 30, 2013, the Cooperative was overbilled \$48,904.

**Group Concentration of Credit Risk**

The Cooperative's headquarters is located in Pima, Arizona. The service area includes members located in Graham County, Arizona, and also includes retail service to the towns of Pima and Ft. Thomas, and wholesale services to Eden Water Company. The Cooperative records a receivable for gas and water service as billed on a monthly basis. The Cooperative requires a deposit from customers upon connection which is applied to any unpaid bills upon default. The deposit accrues interest annually at the rate of six percent. Deposits on hand totaled \$109,070 and \$105,366 at September 30, 2014 and 2013, respectively.

**Patronage Capital Certificates**

Patronage capital from associated organizations is recorded at the stated amount of the certificate.

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**Inventories**

Inventories which consist of construction materials and supplies are valued at average unit cost.

**Cash and Cash Equivalents**

For purposes of the statement of cash flows, cash and cash equivalents are represented by Cash – General.

**Restricted Cash**

As part of its agreement for loan funding from USDA Rural Development, the Cooperative is required to accumulate a cash reserve fund. The fund balance at September 30, 2014 and 2013 was \$75,279 and \$63,906, respectively. The cash reserve fund was in compliance with funding requirements as of September 30, 2014.

**Federal Income Tax Status**

The Cooperative qualifies for tax exempt status under Internal Revenue Code section 501(c)(12) with more than 85% of income consisting of amounts received from members.

The Cooperative has adopted the "uncertain tax positions" provisions of accounting principles generally accepted in the United States of America. The primary tax position of the Cooperative is its filing status as a tax exempt entity. The Cooperative determined that it is more likely than not that their tax positions will be sustained upon examination by the Internal Revenue Service (IRS), or other state taxing authority and that all tax benefits are likely to be realized upon settlement with taxing authorities.

The Cooperative files income tax returns in the U.S. federal jurisdiction. The Cooperative is no longer subject to U.S. federal and state income tax examinations by federal taxing authorities for years before 2011.

The Cooperative recognizes interest accrued related to unrecognized tax benefits in interest expense and penalties in operating expenses. There were no penalties or interest recognized during the years ended September 30, 2014 and 2013.

**Allowance for Uncollectible Accounts**

The Cooperative uses the aging method to allow for uncollectible accounts receivable. During the year, management makes an evaluation of past due accounts to determine collection ability. The accounts deemed uncollectible are written off upon approval by the Board of Directors.

**Use of Estimates in the Preparation of Financial Statements**

The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenues and expenses during the reporting period. Actual results could differ from those estimates.

**2. Assets Pledged**

All assets are pledged as security for the long-term debt due the National Rural Utilities Cooperative Finance Corporation (CFC) and USDA.

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**GRAHAM COUNTY UTILITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**3. Utility Plant and Depreciation**

Utility plant is stated at the original cost of construction including the construction costs incurred by the utility from which the Cooperative acquired plant in November 1989. Original cost includes the cost of contracted services, direct labor, materials, and overhead reduced by contributions in aid to construction received in connection with new construction.

Maintenance and repairs including the renewal of minor items of plant not comprising a retirement unit are charged to the appropriate maintenance accounts.

Major classes of utility plant are summarized as follows:

	September 30,			
	2014			2013
	Gas Department	Water Department	Total	Total
Utility Plant in Service				
Intangible	\$ 42,522	\$ 37,708	\$ 80,230	\$ 80,230
Production		1,791,848	1,791,848	1,789,857
Transmission		1,111,326	1,111,326	1,098,833
Distribution	4,651,457	842,982	5,494,439	5,244,996
General	211,159	21,012	232,171	334,387
Land and Land Rights	1,416	22,507	23,923	23,923
Total Plant in Service	\$ 4,906,554	\$ 3,827,383	\$ 8,733,937	\$ 8,572,226
Construction Work in Progress	45,635	66,509	112,144	64,599
Utility Plant Acquisition Adjustment	415,484	610,168	1,025,652	1,025,652
Total Utility Plant	\$ 5,367,673	\$ 4,504,060	\$ 9,871,733	\$ 9,662,477

Provision has been made for depreciation on straight-line composite rates as follows:

	Gas Department	Water Department
Production		2.34% - 5.05%
Transmission		2.20% - 4.00%
Distribution		4.00% - 20.00%
Gas Mains	2.80%	
Services	4.10%	
Meters - Regulators	2.60%	
Structures	2.30%	
General	6.70% - 13.30%	10.00% - 20.00%

Depreciation accruals charged to expense for the periods ended September 30, 2014 and 2013, totaled \$251,421 and \$241,814, respectively.

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

A plant acquisition adjustment was created when the Cooperative purchased the assets and liabilities of City Utilities, Inc. and General Utilities, Inc. The acquisition adjustment, representing the amount of the purchase price over the book value of the net assets acquired, amounted to \$415,484 in the gas department and \$610,168 in the water department. Plant acquisition adjustments are amortizable over the estimated useful life of the plant acquired. The Cooperative has elected to amortize these costs over a 25-year period. The annual charge to expense is \$16,620 in the gas department and \$24,407 in the water department.

The plant acquisition costs and related provision for amortization at September 30, 2014, are summarized as follows:

	Gas Department	Water Department
Acquisition Adjustment	\$ 415,484	\$ 610,168
Less: Amortization		
Prior Periods	\$ 398,865	\$ 585,761
Current Year	16,619	24,407
	\$ 415,484	\$ 610,168
Unamortized Adjustment	\$ 0	\$ 0

**4. Investments in Associated Organizations**

Investments in associated organizations consisted of the following:

	September 30,	
	2014	2013
CFC		
Capital Term Certificates	\$ 149,210	\$ 169,242
Patronage Capital	117,426	118,437
Memberships	1,000	1,000
	\$ 267,636	\$ 288,679
Graham County Electric Cooperative, Inc.		
Patronage Capital	\$ 24,778	\$ 22,989
Total	\$ 292,414	\$ 311,668

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**GRAHAM COUNTY UTILITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**5. Deferred Charges**

Deferred charges consisted of the following:

	September 30,	
	2014	2013
Gas Department		
Unamortized Rate Case Expense	\$ 19,989	\$ 27,126
	<u>\$ 19,989</u>	<u>\$ 27,126</u>
Water Department		
Unamortized Debt Expense	\$ 4,159	\$ 8,263
Unamortized Rate Case Expense	1,711	4,278
	<u>\$ 5,870</u>	<u>\$ 12,541</u>
Total	<u>\$ 25,859</u>	<u>\$ 39,667</u>

During 1998, the Cooperative converted a CFC note to a lower interest rate of 7.1% for 15 years with a conversion fee of \$109,457. Amortization expense for the years ended September 30, 2014 and 2013, is \$4,104 and \$7,650, respectively.

**6. Memberships**

Memberships are comprised of the following:

	September 30,	
	2014	2013
Class A Memberships		
Graham County Electric Cooperative, Inc., entitled to one vote	\$ 5,000	\$ 4,995
Class B Memberships		
All qualified members of Graham County Electric Cooperative, Inc., \$5 membership fee, entitled to one vote per membership	21,905	21,850
Class C Memberships		
All others who receive service, \$5 membership fee, entitled to one vote per membership	<u>4,670</u>	<u>4,670</u>
	<u>\$ 31,575</u>	<u>\$ 31,515</u>

GRAHAM COUNTY UTILITIES, INC.

NOTES TO FINANCIAL STATEMENTS

7. Accumulated Margins (Deficits)

This balance consists of net margins or (losses) as follows:

Calendar Year	Gas Department	Water Department	Total
1989	\$ 6,702	\$ (694)	\$ 6,008
1990	(14,127)	2,845	(11,282)
1991	(91,410)	(23,047)	(114,457)
1992	(41,115)	(13,851)	(54,966)
1993	(64,937)	5,077	(59,860)
1994	(46,268)	26,495	(19,773)
1995	(172,043)	(28,603)	(200,646)
1996	(68,293)	(3,409)	(71,702)
1997	(65,806)	(23,095)	(88,901)
1998	225,309	31,474	256,783
1999	97,405	62,256	159,661
2000	1,467	46,927	48,394
2001	39,062	40,741	79,803
2002	61,124	1,125	62,249
2003	(5,764)	69,524	63,760
2004	62,759	7,767	70,526
2005	92,446	47,242	139,688
2006	141,801	42,157	183,958
2007	69,003	36,636	105,639
2008	(179,686)	(26,292)	(205,978)
2009	(400,801)	(85,705)	(486,506)
2010	(239,276)	(5,043)	(244,319)
2011	119,105	45,681	164,786
2012	(46,026)	30,447	(15,579)
2013	34,295	48,926	83,221
2014 Nine Months	47,438	25,916	73,354
	\$ (437,636)	\$ 361,497	\$ (76,139)
Patronage Capital Retired		(82,035)	(82,035)
	\$ (437,636)	\$ 279,462	\$ (158,174)

The Board of Directors has adopted the policy of separating each department's net gains or losses for allocation purposes. Patronage capital is allocated after all deficits have been recovered. During the years ended September 30, 2014 and 2013, no retirements of patronage capital were made.



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**GRAHAM COUNTY UTILITIES, INC.**  
**NOTES TO FINANCIAL STATEMENTS**

**8. Mortgage Notes – CFC**

Following is a summary of long-term debt due CFC maturing between September 30, 2014 and July 7, 2040:

	September 30,	
	2014	2013
Fixed - 7.10%	\$	\$ 146,672
Fixed - 2.35%		47,733
Fixed - 7.45%	230,666	249,105
Fixed - 4.85%	311,028	322,559
Fixed - 7.00%	762,806	773,093
Fixed - 3.05%	227,927	233,761
	\$ 1,532,427	\$ 1,772,923
Less: Current Maturities	48,000	240,000
	<u>\$ 1,484,427</u>	<u>\$ 1,532,923</u>

Principal and interest installments on the above notes are due quarterly in amounts of approximately \$85,484. As of September 30, 2014, annual maturities of long-term debt due CFC for the next five years is as follows:

2015	\$ 48,000
2016	50,000
2017	54,000
2018	58,000
2019	63,000

The loan agreement with CFC contains provisions requiring a Debt Service Coverage (DSC) requirement of 1.15. This debt covenant was not met as of September 30, 2014.

**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**9. USDA Rural Development Note Payable**

Following is a summary of long-term debt due USDA Rural Development:

	September 30,	
	2014	2013
5.000% Note Maturing March, 2032	\$ 121,455	\$ 125,707
4.500% Note Maturing August, 2035	218,955	225,181
4.500% Note Maturing July, 2040	78,973	80,575
4.125% Note Maturing March, 2047	1,014,534	1,029,371
	<u>\$ 1,433,917</u>	<u>\$ 1,460,834</u>
Less: Current Maturities	<u>27,900</u>	<u>26,700</u>
	<u><u>\$ 1,406,017</u></u>	<u><u>\$ 1,434,134</u></u>

Principal and interest installments on the above notes are due monthly in amounts of \$7,713. As of September 30, 2014, annual maturities of long-term debt due USDA Rural Development for the next five years are as follows:

2015	\$ 27,900
2016	29,000
2017	30,500
2018	31,800
2019	8,200

**10. Note Payable - Graham County Electric**

During the year ended September 30, 2013, the Cooperative received loan funds from Graham County Electric Cooperative, Inc. in the amount of \$1,000,000 with a term of ten years at an interest rate of 5.44%. As of September 30, 2014, the outstanding balance on the note is \$927,400. The annual maturities of the long-term debt due Graham County Electric for the next five years are as follows:

2015	\$ 81,430
2016	86,000
2017	90,800
2018	95,800
2019	101,200

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**GRAHAM COUNTY UTILITIES, INC.**

**NOTES TO FINANCIAL STATEMENTS**

**11. CIAC Refund Due**

As a part of the final ruling by the Arizona Corporation Commission on recent rate cases for both the gas and water utilities the Cooperative agreed to refund contributions in aid of construction previously charged to the members. The total to be refunded is \$226,765 for the gas division and \$15,536 in the water division. The Cooperative refunded these in the current period. As of September 30, 2014, the balance remaining to be refunded is \$60,418 for the gas division and \$0 for the water division. This liability is reflected in Accounts Payable – Other on these financial statements.

**12. Deferred Credits**

	September 30,	
	2014	2013
Aid to Construction	\$ <u>                    </u>	\$ <u>232,222</u>

**13. Related Parties**

The Cooperative is related by having substantially identical Boards of Directors and management with Graham County Electric Cooperative, Inc. (GCEC). GCEC provides administrative and general, management, operations, consumer accounting, and construction services to the Cooperative under an operating and management agreement signed by both parties on September 20, 1989.

GCEC is also the guarantor of the mortgage loan executed by the Cooperative to CFC.

Balances between the two Cooperatives are summarized as follows:

	September 30,	
	2014	2013
Graham County Utilities, Inc.		
Accounts Payable	\$ (855,213)	\$ (452,189)
Loan Payable (Current and Long-Term)	(927,231)	(1,000,000)
Total	\$ <u>(1,782,444)</u>	\$ <u>(1,452,189)</u>
Graham County Electric Cooperative, Inc.		
Accounts Receivable	\$ 855,213	\$ 452,189
Note Receivable (Current and Long-Term)	927,231	1,000,000
Total	\$ <u>1,782,444</u>	\$ <u>1,452,189</u>

**14. Litigation and Contingencies**

The Cooperative is not involved in any litigation that would materially affect the financial statements.

**15. Subsequent Events**

The Cooperative has evaluated subsequent events through November 10, 2014, the date the financial statements were available to be issued.

## **ACCOMPANYING INFORMATION**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**certified public accountants**

**PHONE: (800) 747-3808**

**FAX: (800) 747-3815**

**8215 Nashville Avenue**

**LUBBOCK, TEXAS 79423-1954**

**INDEPENDENT AUDITOR'S REPORT ON  
ACCOMPANYING INFORMATION**

We have audited the financial statements of Graham County Utilities Inc. as of and for the year ended September 30, 2014, and our report thereon dated November 10, 2014, which expressed an unqualified opinion on those financial statements, appears on page 1. Our audit was conducted for the purpose of forming an opinion on the financial statements as a whole. The following department financial statements are presented for purpose of additional analysis and are not a required part of the financial statements. Such information is the responsibility of management and was derived from and relates directly to the underlying accounting and other records used to prepare the financial statements. The information has been subjected to the auditing procedures applied in the audit of the financial statements and certain additional procedures, including comparing and reconciling such information directly to the underlying accounting and other records used to prepare the financial statements or to the financial statements themselves, and other additional procedures in accordance with auditing standards generally accepted in the United States of America. In our opinion the information is fairly stated in all material respects in relation to the financial statements as a whole.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

November 10, 2014

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**GRAHAM COUNTY UTILITIES, INC.**  
**GAS DEPARTMENT**

**Schedule 1**

**BALANCE SHEET**  
**SEPTEMBER 30, 2014 AND 2013**

**ASSETS**

	September 30,	
	2014	2013
<b>UTILITY PLANT</b>		
Plant in Service	\$ 4,906,554	\$ 4,801,748
Construction Work in Progress	45,635	11,822
Plant Acquisition Adjustment	415,484	415,484
	<u>\$ 5,367,673</u>	<u>\$ 5,229,054</u>
Less: Accumulated Provision for Depreciation and Amortization	<u>3,000,703</u>	<u>2,834,999</u>
	<u>\$ 2,366,970</u>	<u>\$ 2,394,055</u>
 <b>OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE</b>		
Investments in Associated Organizations	<u>\$ 177,679</u>	<u>\$ 189,396</u>
 <b>CURRENT ASSETS</b>		
Accounts Receivable (Less allowance for uncollectibles of \$48,441 in 2014 and \$54,085 in 2013)	\$ 48,345	\$ 73,613
Underbilled Consumers Fuel Cost	19,305	
Materials and Supplies	63,774	104,750
Other Current and Accrued Assets	21,119	19,782
Total Current Assets	<u>\$ 152,543</u>	<u>\$ 198,145</u>
 <b>DEFERRED CHARGES</b>	<u>\$ 19,989</u>	<u>\$ 27,126</u>
 <b>TOTAL ASSETS</b>	<u><u>\$ 2,717,181</u></u>	<u><u>\$ 2,808,722</u></u>

**EQUITIES AND LIABILITIES**

<b>MEMBERS' EQUITY</b>		
Memberships	\$ 29,075	\$ 29,015
Accumulated Deficits	<u>(437,637)</u>	<u>(477,026)</u>
	<u>\$ (408,562)</u>	<u>\$ (448,011)</u>
 <b>LONG -TERM DEBT</b>		
CFC Mortgage Notes Less Current Maturities	\$ 1,118,500	\$ 1,305,912
Note Payable - Graham County Electric Coop	845,971	927,400
	<u>\$ 1,964,471</u>	<u>\$ 2,233,312</u>
 <b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 267,430	\$ 214,480
Accounts Payable - Other	111,141	120,305
Accounts Payable - Graham County Electric Cooperative	599,058	238,029
Overbilled Consumers Fuel Cost		48,904
Accrued Taxes	51,655	54,789
Customers' Deposits and Prepayments	94,270	88,146
Accrued Interest	13,319	12,554
Accrued Payroll	24,399	13,992
Total Current Liabilities	<u>\$ 1,161,272</u>	<u>\$ 791,199</u>
 <b>DEFERRED CREDITS</b>	<u>\$ 0</u>	<u>\$ 232,222</u>
 <b>TOTAL EQUITIES AND LIABILITIES</b>	<u><u>\$ 2,717,181</u></u>	<u><u>\$ 2,808,722</u></u>

**GRAHAM COUNTY UTILITIES, INC.  
GAS DEPARTMENT**

**Schedule 2**

**STATEMENT OF INCOME AND ACCUMULATED MARGINS (DEFICITS)  
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

	September 30,		Increase (Decrease)
	2014	2013	
<b>OPERATING REVENUES</b>			
Residential	\$ 2,264,916	\$ 2,189,053	\$ 75,863
Irrigation	19,301	18,455	846
Commercial and Industrial	793,545	815,917	(22,372)
Fuel Cost Under (Over) Billed	68,177	82,208	(14,031)
Other Operating Revenues	39,949	39,335	614
Total Operating Revenues	<u>\$ 3,185,888</u>	<u>\$ 3,144,968</u>	<u>\$ 40,920</u>
<b>OPERATING EXPENSES</b>			
Purchased Gas	\$ 1,215,430	\$ 1,263,323	\$ (47,893)
Operations	447,623	384,176	63,447
Maintenance	311,173	416,690	(105,517)
Customer Accounts	357,541	354,408	3,133
Administrative and General	489,192	452,600	36,592
Depreciation and Amortization	165,706	161,886	3,820
Other Interest	73,657	34,336	39,321
Total Operating Expenses	<u>\$ 3,060,322</u>	<u>\$ 3,067,419</u>	<u>\$ (7,097)</u>
<b>OPERATING MARGIN - Before Fixed Charges</b>	<u>\$ 125,566</u>	<u>\$ 77,549</u>	<u>\$ 48,017</u>
<b>FIXED CHARGES</b>			
Interest on Long-Term Debt	<u>91,191</u>	<u>99,604</u>	<u>(8,413)</u>
<b>OPERATING MARGIN (DEFICIT) - After Fixed Charges</b>	<u>\$ 34,375</u>	<u>\$ (22,055)</u>	<u>\$ 56,430</u>
Capital Credits	<u>5,014</u>	<u>6,546</u>	<u>(1,532)</u>
<b>NET MARGIN (DEFICIT)</b>	<u>\$ 39,389</u>	<u>\$ (15,509)</u>	<u>\$ 54,898</u>
<b>ACCUMULATED DEFICIT - BEGINNING OF YEAR</b>	<u>(477,026)</u>	<u>(461,517)</u>	
<b>ACCUMULATED DEFICIT - END OF YEAR</b>	<u>\$ (437,637)</u>	<u>\$ (477,026)</u>	

**GRAHAM COUNTY UTILITIES, INC.  
GAS DEPARTMENT**

**Schedule 3**

**STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

	September 30,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margin (Deficit)	\$ 39,389	\$ (15,509)
Adjustments to Reconcile Net Margin to Net Cash		
From Operating Activities		
Depreciation and Amortization	165,706	161,886
Capital Credits - Noncash	(5,014)	(6,546)
Deferred Charges	7,137	(9,574)
Deferred Credits	(232,222)	
Under Billed Fuel Cost - Net	(68,209)	(82,579)
Accounts Receivable	25,268	(11,658)
Inventories and Other Current Assets	39,639	(33,728)
Payables and Accrued Expenses	4,997	(134,481)
Net Payments from - Graham County Electric Cooperative	361,029	(605,902)
Net Cash From Operating Activities	\$ 337,720	\$ (738,091)
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Additions to Gas Utility Plant	\$ (138,619)	\$ (136,803)
Investments in Associated Organizations	16,731	10,128
Net Cash From Investing Activities	\$ (121,888)	\$ (126,675)
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Long-Term Debt - CFC	\$ (215,892)	\$ (134,879)
Advances from Graham County Electric		1,000,000
Memberships	60	(355)
Net Cash From Financing Activities	\$ (215,832)	\$ 864,766
<b>CHANGE IN CASH</b>	\$ 0	\$ 0
<b>CASH - BEGINNING OF YEAR</b>	0	0
<b>CASH - END OF YEAR</b>	\$ 0	\$ 0
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Paid During the Year for:		
Interest on Long-Term Debt	\$ 148,467	\$ 99,604
Federal Income Tax	\$ 0	\$ 0



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**GRAHAM COUNTY UTILITIES, INC.**  
**WATER DEPARTMENT**

**Schedule 4**

**BALANCE SHEET**  
**SEPTEMBER 30, 2014 AND 2013**

**ASSETS**

	September 30,	
	2014	2013
<b>UTILITY PLANT AT COST</b>		
Water Plant in Service	\$ 3,827,383	\$ 3,770,478
Construction Work in Progress	66,509	52,777
Plant Acquisition Adjustment	610,168	610,168
	<u>\$ 4,504,060</u>	<u>\$ 4,433,423</u>
Less: Accumulated Provision for Depreciation and Amortization	2,536,503	2,409,763
	<u>\$ 1,967,557</u>	<u>\$ 2,023,660</u>
 <b>OTHER PROPERTY AND INVESTMENTS AT COST OR STATED VALUE</b>		
Investments in Associated Organizations	\$ 114,735	\$ 122,272
 <b>CURRENT ASSETS</b>		
Cash - Restricted	\$ 75,279	\$ 63,906
Accounts Receivable - Customers (Less allowance for uncollectibles of \$5,873 and \$7,362 in 2013)	23,052	30,178
Materials and Supplies	66,673	69,435
Other Current and Accrued Assets	7,043	6,594
Total Current Assets	<u>\$ 172,047</u>	<u>\$ 170,113</u>
 <b>DEFERRED CHARGES</b>	<u>\$ 5,870</u>	<u>\$ 12,541</u>
 <b>NET ASSETS</b>	<u>\$ 2,260,209</u>	<u>\$ 2,328,586</u>

**EQUITIES AND LIABILITIES**

<b>EQUITY</b>		
Memberships	\$ 2,500	\$ 2,500
Patronage Capital	279,463	268,052
	<u>\$ 281,963</u>	<u>\$ 270,552</u>
 <b>LONG-TERM DEBT</b>		
CFC Mortgage Notes Less Current Maturities	\$ 203,927	\$ 227,011
USDA Rural Development Notes Less Current Maturities	1,406,017	1,434,134
	<u>\$ 1,609,944</u>	<u>\$ 1,661,145</u>
 <b>CURRENT LIABILITIES</b>		
Current Maturities of Long-Term Debt	\$ 51,900	\$ 124,820
Accounts Payable - Other	4,919	4,346
Accounts Payable - Graham County Electric Cooperative	256,155	214,160
Accrued Taxes	32,151	30,927
Customers' Deposits and Prepayments	14,800	17,220
Accrued Interest	1,531	1,593
Accrued Payroll	6,846	3,823
Total Current Liabilities	<u>\$ 368,302</u>	<u>\$ 396,889</u>
 <b>NET EQUITIES AND LIABILITIES</b>	<u>\$ 2,260,209</u>	<u>\$ 2,328,586</u>

-20-  
**GRAHAM COUNTY UTILITIES, INC.**  
**WATER DEPARTMENT**

**Schedule 5**

**STATEMENT OF INCOME AND ACCUMULATED MARGINS**  
**FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

	September 30,		Increase (Decrease)
	2014	2013	
<b>OPERATING REVENUES</b>			
Residential	\$ 629,063	\$ 643,691	\$ (14,628)
Commercial and Industrial	72,617	73,846	(1,229)
Sales for Resale	35,990	47,718	(11,728)
Other Operating Revenues	14,934	14,645	289
Total Operating Revenues	<u>\$ 752,604</u>	<u>\$ 779,900</u>	<u>\$ (27,296)</u>
<b>OPERATING EXPENSES</b>			
Purchased Power - Pumping	\$ 28,072	\$ 40,978	\$ (12,906)
Operations	80,137	80,438	(301)
Maintenance	192,029	192,724	(695)
Customer Accounts	93,727	91,925	1,802
Administrative and General	142,624	135,373	7,251
Depreciation and Amortization	126,741	120,955	5,786
Other Interest	12,366	11,284	1,082
Total Operating Expenses	<u>\$ 675,696</u>	<u>\$ 673,677</u>	<u>\$ 2,019</u>
<b>OPERATING MARGINS - Before Fixed Charges</b>			
Fixed Charges	\$ 76,908	\$ 106,223	\$ (29,315)
<b>FIXED CHARGES</b>			
Interest on Long-Term Debt	<u>72,047</u>	<u>74,024</u>	<u>(1,977)</u>
<b>OPERATING MARGIN - After Fixed Charges</b>	\$ 4,861	\$ 32,199	\$ (27,338)
Capital Credits	<u>6,238</u>	<u>11,639</u>	<u>(5,401)</u>
<b>NET OPERATING MARGIN</b>	\$ 11,099	\$ 43,838	\$ (32,739)
<b>NONOPERATING MARGINS</b>			
Interest	<u>312</u>	<u>569</u>	<u>(257)</u>
<b>NET MARGIN</b>	\$ 11,411	\$ 44,407	<u>\$ (32,996)</u>
<b>ACCUMULATED MARGINS - BEGINNING OF YEAR</b>	<u>268,052</u>	<u>223,645</u>	
<b>ACCUMULATED MARGINS - END OF YEAR</b>	<u>\$ 279,463</u>	<u>\$ 268,052</u>	

**GRAHAM COUNTY UTILITIES, INC.  
WATER DEPARTMENT**

**Schedule 6**

**STATEMENT OF CASH FLOWS  
FOR THE YEARS ENDED SEPTEMBER 30, 2014 AND 2013**

	September 30,	
	2014	2013
<b>CASH FLOWS FROM OPERATING ACTIVITIES</b>		
Net Margin	\$ 11,411	\$ 44,407
Adjustments to Reconcile Net Margins to Net Cash		
From Operating Activities		
Depreciation and Amortization	126,741	120,955
Capital Credits - Noncash	(6,238)	(11,638)
Deferred Charges	6,671	6,672
Accounts Receivable	7,126	2,530
Inventories and Other Current Assets	2,313	(333)
Payables and Accrued Expenses	2,338	(13,366)
Net Payments from (to) - Graham County Electric Cooperative	41,995	22,792
Net Cash From Operating Activities	<u>\$ 192,357</u>	<u>\$ 172,019</u>
<b>CASH FLOWS FROM INVESTING ACTIVITIES</b>		
Net Additions to Plant	\$ (70,638)	\$ (63,291)
Cash - Restricted	(11,373)	(96)
Investments in Associated Organizations	13,775	8,722
Net Cash From Investing Activities	<u>\$ (68,236)</u>	<u>\$ (54,665)</u>
<b>CASH FLOWS FROM FINANCING ACTIVITIES</b>		
Payments on Long-Term Debt to CFC	\$ (97,374)	\$ (91,744)
Payments on Long-Term Debt to USDA	(26,747)	(25,610)
Net Cash From Financing Activities	<u>\$ (124,121)</u>	<u>\$ (117,354)</u>
<b>CHANGE IN CASH</b>	<u>\$ 0</u>	<u>\$ 0</u>
<b>CASH - BEGINNING OF YEAR</b>	<u>0</u>	<u>0</u>
<b>CASH - END OF YEAR</b>	<u><u>\$ 0</u></u>	<u><u>\$ 0</u></u>
<b>SUPPLEMENTAL DISCLOSURE OF CASH FLOW INFORMATION</b>		
Paid During the Year for:		
Interest on Long-Term Debt	\$ <u>72,217</u>	\$ <u>79,025</u>
Federal Income Tax	\$ <u>0</u>	\$ <u>0</u>

## **COMPLIANCE AND INTERNAL CONTROL SECTION**

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**certified public accountants**

**PHONE: (800) 747-3808**

**FAX: (800) 747-3815**

**8215 Nashville Avenue**

**LUBBOCK, TEXAS 79423-1954**

**LETTER TO BOARD OF DIRECTORS REGARDING POLICIES CONCERNING  
AUDITS OF CFC BORROWERS**

Board of Directors  
Graham County Utilities, Inc.  
Pima, Arizona

We have audited, in accordance with auditing standards generally accepted in the United States of America, the financial statements of Graham County Utilities, Inc., for the year ended September 30, 2014, and have issued our report thereon dated November 10, 2014.

In connection with our audits the following came to our attention that caused us to believe that the Cooperative failed to comply with the terms of Article V of the National Rural Utilities Cooperative Finance Corporation Loan Agreement insofar as they relate to accounting matters.

- The loan agreement with CFC contains provisions requiring a Debt Service Coverage (DSC) requirement of 1.15. This debt covenant was not met as of September 30, 2014.

The Cooperative's accounting and reporting procedures were considered adequate in all material respects. The records were maintained in accordance with the prescribed Uniform System of Accounts. The procedures used in accounting for material, transportation, labor, and overhead costs provide a fair distribution of these costs to construction, retirement, and maintenance or other expense accounts. However, certain items were noted as explained below:

- Continuing property records have not been established for plant accounts in service. Retirements from plant are recorded at estimated cost.
- Subsidiary detail records have not been established and maintained for all general plant accounts.

During the year ended September 30, 2014, the Cooperative was advanced \$0 in loan funds for construction purposes.

This report is intended solely for the information and use of the Board of Directors and management of Graham County Electric Utilities and the National Rural Utilities Cooperative Finance Corporation and is not intended to be and should not be used by anyone other than these specified parties.

*Bolinger, Segars, Gilbert & Moss LLP*

Certified Public Accountants

November 10, 2014

**BOLINGER, SEGARS, GILBERT & MOSS, L.L.P.**

**certified public accountants**

**PHONE: (800) 747-3800**

**FAX: (800) 747-3815**

**8215 Nashville Avenue**

**LUBBOCK, TEXAS 79423-1954**

**REPORT ON INTERNAL CONTROL OVER FINANCIAL REPORTING AND ON COMPLIANCE AND  
OTHER MATTERS BASED ON AN AUDIT OF THE FINANCIAL STATEMENTS PERFORMED IN  
ACCORDANCE WITH GOVERNMENT AUDITING STANDARDS**

**Independent Auditor's Report**

Board of Directors  
Graham County Utilities, Inc.  
Pima, Arizona

We have audited, in accordance with the auditing standards generally accepted in the United States of America and the standards applicable to financial audits contained in *Government Auditing Standards* issued by the Comptroller General of the United States, the financial statements of Graham County Utilities, Inc., as of and for the year ended September 30, 2014, and the related notes to the financial statements, which collectively comprise Graham County Utilities, Inc.'s basic financial statements, and have issued our report thereon dated November 10, 2014.

**Internal Control Over Financial Reporting**

Management of the Cooperative is responsible for establishing and maintaining effective internal control over finance reporting.

In planning and performing our audit of the financial statements, we considered Graham County Utilities, Inc.'s internal control over financial reporting (internal control) to determine the audit procedures that are appropriate in the circumstances for the purpose of expressing our opinion on the financial statements, but not for the purpose of expressing an opinion on the effectiveness of Graham County Utilities, Inc.'s internal control. Accordingly, we do not express an opinion on the effectiveness of Graham County Utilities, Inc.'s internal control.

*A deficiency in internal control* exists when the design or operation of a control does not allow management or employees, in the normal course of performing their assigned functions, to prevent, or detect and correct, misstatements on a timely basis. *A material weakness* is a deficiency, or a combination of deficiencies, in internal control, such that there is a reasonable possibility that a material misstatement of the entity's financial statements will not be prevented, or detected and corrected on a timely basis. *A significant deficiency* is a deficiency, or a combination of deficiencies, in internal control that is less severe than a material weakness, yet important enough to merit attention by those charged with governance.

Our consideration of internal control was for the limited purpose described in the first paragraph of this section and was not designed to identify all deficiencies in internal control that might be material weaknesses or significant deficiencies. Given these limitations, during our audit we did not identify any deficiencies in internal control that we consider to be material weaknesses. However, material weaknesses may exist that have not been identified.

### **Compliance and Other Matters**

As part of obtaining reasonable assurance about whether Graham County Utilities, Inc.'s financial statements are free from material misstatement, we performed tests of its compliance with certain provisions of laws, regulations, contracts, and grant agreements, noncompliance with which could have a direct and material effect on the determination of financial statement amounts. However, providing an opinion on compliance with those provisions was not an objective of our audit, and accordingly, we do not express such an opinion. The results of our tests disclosed no instances of noncompliance or other matters that are required to be reported under *Government Auditing Standards*.

### **Purpose of this Report**

The purpose of this report is solely to describe the scope of our testing of internal control and compliance and the results of that testing, and not to provide an opinion on the effectiveness of the entity's internal control or on compliance. This report is an integral part of an audit performed in accordance with *Government Auditing Standards* in considering the entity's internal control and compliance. Accordingly, this communication is not suitable for any other purpose.

*Balinger, Segars, Gilbert & Mass LLP*

Certified Public Accountants

Lubbock, Texas

November 10, 2014

### **IMPORTANT RATE INCREASE NOTICE - PLEASE READ**

Graham County Utilities, Inc. – Gas Division ("GCU") has notified the Arizona Corporation Commission ("Commission") that it intends to file a streamlined application ("Streamlined Application") on or about September 30, 2015, to increase its rates and charges pursuant to A.R.S. § 40-250 and A.A.C. R14-2-107 ("Rule 107"), the Commission's rule authorizing the filing of streamlined rate applications for electric and natural gas cooperatives. GCU is requesting an overall rate increase of \$114,237 or 6% over actual test year total base revenue (this is the maximum allowed per Rule 107). GCU's test year for this rate filing is year ending December 31, 2014. GCU states that the rate increase is necessary to recover operating costs. The last general rate increase for GCU was effective August 1, 2013.

A residential customer with monthly natural gas consumption of 59 therms (average usage) in the winter will see an increase in his/her bill of \$1.30 per month (from \$37.30 to \$38.60), or 3.5%. A residential customer with monthly natural gas consumption of 46 therms (median usage) in the winter will see an increase in his/her bill of \$1.30 per month (from \$32.39 to \$33.69), or 4%.

All of the proposed Residential customer increase will be in the monthly customer charge. A decrease in usage by a residential customer will *not* lessen the increase from this rate proposal.

The proposed increases by rate class over existing base rates are:

	\$ Increase in Mo. System Charge	\$ Increase in per Therm Charge	% Increase for Average Usage	% Increase for Median Usage
Residential*	\$1.30	0.00	3.5%	4%
Commercial**	\$5.60	0.02	7.6%	11.7%
Irrigation***	\$3.55	0.01	7.5%	8.2%

\* Residential data are based on highest usage months during the winter

\*\* Commercial data are based on an annual average

\*\*\* Irrigation data are based on highest usage months during the summer

**The Rule 107 streamlined rate process is available to GCU only if the Commission receives objections from less than 237 GCU customers by October 13, 2015. If the Commission receives objections from at least 237 GCU customers by October 13, 2015, GCU will not be eligible to use the Rule 107 streamlined process, but will instead need to use the Rule 103 rate increase application process which would involve a formal evidentiary hearing and a more comprehensive review/analysis by Commission Staff.**

### **Processing the Streamlined Application**

Rule 107 provides streamlined procedures that should reduce rate case expense for processing rate applications of electric and natural gas cooperatives where (i) the requested increase in total base revenue does not exceed 6% of the actual test year total base revenue; (ii) the change in base revenue generated by any one rate class is no greater than 150% of the overall base revenue increase; (iii) there is no change greater than 25% in the customer charge within a rate schedule for residential customers; and (iv) there is no change in the rate blocks or the percentage relationship of the prices among rate blocks. The rule requires that not sooner than 20 days or later than 50 days after providing this notice to customers, GCU may file its Streamlined Application to increase rates. Streamlined refers to the fact that such an application will be processed under a shorter time-frame than a rate increase application filed pursuant to A.A.C. R14-2-103 ("Rule 103") and, therefore, receive a less comprehensive (possibly less costly) review/analysis by Commission Staff than a Rule 103 review/analysis. GCU's Streamlined Application may be approved without a formal evidentiary hearing. However, the Commission may at any time - at the request of Staff, an intervenor, or on its own - require GCU's rate increase application to be processed pursuant to the more comprehensive Rule 103 requirements. You can view the entire Rule 103 and 107 at [http://apps.azsos.gov/public\\_services/Title\\_14/14-02.pdf](http://apps.azsos.gov/public_services/Title_14/14-02.pdf).



### **Public Comment and Intervention**

A person desiring to object to the Streamlined Application or to request intervention in the rate case must file the objection or the intervention request not later than the date specified below. Within 14 days after the deadline for objections and intervention requests, the Commission's Utilities Division Staff must determine the eligibility and sufficiency of the Streamlined Application under Rule 107.

Written public comments regarding GCU's Streamlined Application, including objections to it being processed pursuant to the alternative Rule 107 streamlined requirements, may be submitted by mailing a letter referencing Docket No. G-02527A-15-0319 to the Commission's Consumer Services Section at 1200 W. Washington, Phoenix, Arizona 85007, or by e-mail. For a form to use and instructions on how to e-mail comments to the Commission, go to: <http://eservice.azcc.gov/Utilities/PublicComment>.

Requests to intervene may be filed in Docket No. G-02527A-15-0319 by any person entitled by law to intervene or who is directly and substantially affected by the proceeding. If you require assistance, either to provide public comment or to seek intervention, you may contact the Commission's Consumer Services Section during normal business hours at 602-542-4251 or 1-800-222-7000 (Phoenix office); or 520-628-6550 or 1-800-535-0148 (Tucson office); or you may contact GCU during normal business hours at 928-485-2451. All motions to intervene and all objections to the Streamlined Application must be filed on or before October 13, 2015.

### **How You Can View or Obtain a Copy of the Application and Other Filed Documents**

A copy of the Streamlined Application is available for public inspection during regular business hours at GCU's offices located at 9 West Center Street, Pima, Arizona 85543. A copy of the Streamlined Application is also available at GCU's website ([www.gce.coop](http://www.gce.coop)). After September 30, 2015, a copy of the Streamlined Application will also be available for public inspection during regular business hours at the Commission's Docket Control Center at 1200 W. Washington Street, Phoenix, Arizona, 85007, in the Commission's Tucson Office at 400 W. Congress, Tucson, Arizona, 85701 and on the Internet via the Commission's website ([www.azcc.gov](http://www.azcc.gov)) using the e-Docket function.

### **GCU Contact Information**

Graham County Utilities, Inc.  
9 West Center Street  
PO Drawer B  
Pima, Arizona 85543  
Phone: 928-485-2451

### **ADA/Equal Access Information**

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation, such as a sign language interpreter, as well as request this document in an alternative format, by contacting the ADA Coordinator, Shaylin Bernal, e-mail [SABernal@azcc.gov](mailto:SABernal@azcc.gov), voice phone number 602-542-3931. Requests should be made as soon as possible to allow time to arrange the accommodation.

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1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 SUSAN BITTER SMITH – CHAIRMAN  
4 DOUG LITTLE  
5 TOM FORESE  
6 BOB BURNS  
7 BOB STUMP

8 IN THE MATTER OF THE APPLICATION  
9 OF GRAHAM COUNTY UTILITIES, INC. –  
10 GAS DIVISION FOR A DETERMINATION  
11 OF THE FAIR VALUE OF ITS PROPERTY  
12 FOR RATEMAKING PURPOSES, TO FIX A  
13 JUST AND REASONABLE RATE OF  
14 RETURN THEREON, TO APPROVE RATES  
15 DESIGNED TO DEVELOP SUCH RETURN,  
16 AND FOR RELATED APPROVALS.

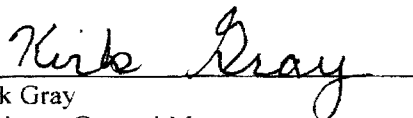
DOCKET NO. G-02527A-15-0319

**NOTICE OF MAILING CUSTOMER  
NOTICE**

13 On September 9, 2015 Graham County Utilities, Inc. – Gas Division (“GCU” or the  
14 “Cooperative”) caused a notice to be mailed to its customers via First Class Mail stating that the  
15 Cooperative intends to file a streamlined rate case on or about September 30, 2015, to increase rates  
16 and charges pursuant to A.R.S. § 40-250 and A.A.C. R 14-2-107, the Arizona Corporation  
17 Commission’s rule authorizing the filing of streamlined rate applications by electric and natural gas  
18 cooperatives. GCU contracted with D & L Printing to perform the mailing. Attached hereto as  
19 Exhibit A is a copy of the Certification of Mailing and customer notice, evidencing completion of the  
20 mailing of the customer notice in accordance with A.A.C. R 14-2-107(D).

21 RESPECTFULLY SUBMITTED this 21<sup>st</sup> day of September 2015.

22  
23 By:

  
Kirk Gray  
Assistant General Manager  
Graham County Utilities, Inc.  
9 West Center Street  
PO Drawer B  
Pima, Arizona 85543

1 ORIGINAL and 13 copies filed  
2 this 21st day of September, 2015, with:

3 Docket Control  
4 ARIZONA CORPORATION COMMISSION  
5 1200 West Washington  
6 Phoenix, Arizona 85007

7 COPY of the foregoing hand-delivered  
8 this 21st day of September, 2015, to:

9 Dwight Nodes, Chief Administrative Law Judge  
10 Hearing Division  
11 ARIZONA CORPORATION COMMISSION  
12 1200 West Washington Street  
13 Phoenix, Arizona 85007

14 Thomas M. Broderick, Director  
15 Utilities Division  
16 ARIZONA CORPORATION COMMISSION  
17 1200 West Washington Street  
18 Phoenix, Arizona 85007

19 Janice M. Alward, Chief Counsel  
20 Legal Division  
21 ARIZONA CORPORATION COMMISSION  
22 1200 West Washington Street  
23 Phoenix, Arizona 85007  
24  
25  
26  
27  
28

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# Exhibit A

**Postage Statement—First-Class Mail and First-Class Package Service**

Post Office Notice (Water Post)  
(Do Not Remove Stamp)

<b>Mailer</b>	Permit Holder's Name and Address and Email Address, if Any <b>D &amp; L Printing</b> <b>1219 East Broadway Rd</b> <b>Phoenix, AZ 85040</b>	Telephone <b>602-792-9108</b>	Name and Address of Mailing Agent (If other than permit holder) <b>One Stop Mail</b> <b>304 S Price Rd</b> <b>Tempe, AZ 85281</b> <b>tony@onestopmail.net</b>	Telephone <b>602-233-3003</b>	Name and Address of Mail Owner (If other than permit holder) <b>D &amp; L Printing</b> <b>1219 East Broadway Rd</b> <b>Phoenix, AZ 85040</b> <b>Graham County Utilities</b>
	CAPS Cust. Ref. No. <u>N/A</u> CRID <u>N/A</u>	CRID <u>3913874</u>	CRID <u>N/A</u>		

Mailing	Post Office of Mailing PHOENIX AZ 85026		Processing Category	Parcels Only Hold For Pickup HFPU No of Pieces	Mailer's Mailing Date 09/09/2015	Federal Agency Cost Code N/A	Statement Seq. No. 89111	No. and type of Containers  10 - 1"MM Trays 9 - 2"MM Trays	
	Type of <input checked="" type="checkbox"/> Permit Imprint Postage: <input type="checkbox"/> Precanceled Stamps <input type="checkbox"/> Metered		<input checked="" type="checkbox"/> Letters <input type="checkbox"/> Flats <input type="checkbox"/> Parcels		Weight of a Single Piece  0.0231 pounds	Combined Mailing  <input type="checkbox"/> Single Class	SSF Transaction ID#  Total Pieces 4,705		
	Permit # 1599		For Mail Enclosed Within Another Class <input type="checkbox"/> Periodicals <input type="checkbox"/> Standard Mail <input type="checkbox"/> Bound Printed Matter <input type="checkbox"/> Library Mail <input type="checkbox"/> Media Mail				Customer Generated Electronic Labels <input type="checkbox"/> SigCon		
	For Automation Price Pieces, Enter Date of Address Matching and Coding  09/04/2015			Move Update Method: <input type="checkbox"/> Ancillary Service Endorsement <input type="checkbox"/> OneCode ACS <input checked="" type="checkbox"/> NCOA Link <input type="checkbox"/> ACS <input type="checkbox"/> Alternative Method <input type="checkbox"/> Multiple <input type="checkbox"/> n/a Alternative Address Format				Total Weight 108.6855	

Postage	Letter or Flat-size mailpieces contain: <input type="checkbox"/> Round Trip ONLY: One DVD/CD or other disk		Parts Completed (Select all that apply) <input checked="" type="checkbox"/> A <input checked="" type="checkbox"/> B <input type="checkbox"/> C <input type="checkbox"/> D <input type="checkbox"/> E <input type="checkbox"/> NSA <input type="checkbox"/> S		
	This is a Political Campaign Mailing Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>				
	This is Official Election Mail Yes <input type="checkbox"/> No <input checked="" type="checkbox"/>		1		
	Subtotal Postage (Add parts totals)				\$1,868.19
	2	Price at Which Postage Affixed (Check one). Complete if the mailing includes pieces bearing metered/PC Postage or precanceled stamps. <input type="checkbox"/> Correct <input type="checkbox"/> Lowest <input type="checkbox"/> Neither _____ pcs. x \$ _____ \$ - Postage Affixed			-
3	Incentive/Discount Flat Dollar Amount			-	
4	Fee Flat Dollar Amount			+	
5	Permit # _____	Net Postage Due (Line 1 +/- Lines 2, 3, 4)			\$1,868.19

100

Certification	Incentive/Discount Claimed: _____	Type of Fee _____
	<p>The mailer's signature certifies acceptance of liability for and agreement to pay any revenue deficiencies assessed on this mailing, subject to appeal. If an agent signs this form, the agent certifies that he or she is authorized to sign on behalf of the mailer and that the mailer is bound by the certification and agrees to pay any deficiencies. In addition, agents may be liable for any deficiencies resulting from matters within their responsibility, knowledge, or control. The mailer hereby certifies that all information furnished on this form is accurate, truthful, and complete; that the mail and the supporting documentation comply with all postal standards and the mailing qualifies for the prices and fees claimed; and that the mailing does not contain any matter prohibited by law or postal regulation. Understand that anyone who furnishes false or misleading information on this form or who omits information requested on this form may be subject to criminal and/or civil penalties, including fines and imprisonment.</p> <p><i>Privacy Notice:</i> For information regarding our Privacy Policy visit <a href="http://www.usps.com">www.usps.com</a></p>	

Signature of Mailer or Agent	Printed Name of Mailer or Agent Signing Form Jason Smith	Telephone 602-233-3003
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The image is a high-contrast, black and white scan of a document page. It is heavily obscured by noise and artifacts, making the text almost entirely illegible. Faint, repeating patterns of text are visible across the page, suggesting a grid or table structure. The text is mostly black on a white background, with some white noise on a black background in certain areas.

### **IMPORTANT RATE INCREASE NOTICE - PLEASE READ**

Graham County Utilities, Inc. – Gas Division ("GCU") has notified the Arizona Corporation Commission ("Commission") that it intends to file a streamlined application ("Streamlined Application") on or about September 30, 2015, to increase its rates and charges pursuant to A.R.S. § 40-250 and A.A.C. R14-2-107 ("Rule 107"), the Commission's rule authorizing the filing of streamlined rate applications for electric and natural gas cooperatives. GCU is requesting an overall rate increase of \$114,237 or 6% over actual test year total base revenue (this is the maximum allowed per Rule 107). GCU's test year for this rate filing is year ending December 31, 2014. GCU states that the rate increase is necessary to recover operating costs. The last general rate increase for GCU was effective August 1, 2013.

A residential customer with monthly natural gas consumption of 59 therms (average usage) in the winter will see an increase in his/her bill of \$1.30 per month (from \$37.30 to \$38.60), or 3.5%. A residential customer with monthly natural gas consumption of 46 therms (median usage) in the winter will see an increase in his/her bill of \$1.30 per month (from \$32.39 to \$33.69), or 4%.

All of the proposed Residential customer increase will be in the monthly customer charge. A decrease in usage by a residential customer will *not* lessen the increase from this rate proposal.

The proposed increases by rate class over existing base rates are:

	\$ Increase in Mo. System Charge	\$ Increase in per Therm Charge	% Increase for Average Usage	% Increase for Median Usage
Residential*	\$1.30	0.00	3.5%	4%
Commercial**	\$5.60	0.02	7.6%	11.7%
Irrigation***	\$3.55	0.01	7.5%	8.2%

\* Residential data are based on highest usage months during the winter

\*\* Commercial data are based on an annual average

\*\*\* Irrigation data are based on highest usage months during the summer

**The Rule 107 streamlined rate process is available to GCU only if the Commission receives objections from less than 237 GCU customers by October 13, 2015. If the Commission receives objections from at least 237 GCU customers by October 13, 2015, GCU will not be eligible to use the Rule 107 streamlined process, but will instead need to use the Rule 103 rate increase application process which would involve a formal evidentiary hearing and a more comprehensive review/analysis by Commission Staff.**

### **Processing the Streamlined Application**

Rule 107 provides streamlined procedures that should reduce rate case expense for processing rate applications of electric and natural gas cooperatives where (i) the requested increase in total base revenue does not exceed 6% of the actual test year total base revenue; (ii) the change in base revenue generated by any one rate class is no greater than 150% of the overall base revenue increase; (iii) there is no change greater than 25% in the customer charge within a rate schedule for residential customers; and (iv) there is no change in the rate blocks or the percentage relationship of the prices among rate blocks. The rule requires that not sooner than 20 days or later than 50 days after providing this notice to customers, GCU may file its Streamlined Application to increase rates. Streamlined refers to the fact that such an application will be processed under a shorter time-frame than a rate increase application filed pursuant to A.A.C. R14-2-103 ("Rule 103") and, therefore, receive a less comprehensive (possibly less costly) review/analysis by Commission Staff than a Rule 103 review/analysis. GCU's Streamlined Application may be approved without a formal evidentiary hearing. However, the Commission may at any time - at the request of Staff, an intervenor, or on its own - require GCU's rate increase application to be processed pursuant to the more comprehensive Rule 103 requirements. You can view the entire Rule 103 and 107 at [http://apps.azsos.gov/public\\_services/Title\\_14/14-02.pdf](http://apps.azsos.gov/public_services/Title_14/14-02.pdf).



### **Public Comment and Intervention**

A person desiring to object to the Streamlined Application or to request intervention in the rate case must file the objection or the intervention request not later than the date specified below. Within 14 days after the deadline for objections and intervention requests, the Commission's Utilities Division Staff must determine the eligibility and sufficiency of the Streamlined Application under Rule 107.

Written public comments regarding GCU's Streamlined Application, including objections to it being processed pursuant to the alternative Rule 107 streamlined requirements, may be submitted by mailing a letter referencing Docket No. G-02527A-15-0319 to the Commission's Consumer Services Section at 1200 W. Washington, Phoenix, Arizona 85007, or by e-mail. For a form to use and instructions on how to e-mail comments to the Commission, go to: <http://eservice.azcc.gov/Utilities/PublicComment>.

Requests to intervene may be filed in Docket No. G-02527A-15-0319 by any person entitled by law to intervene or who is directly and substantially affected by the proceeding. If you require assistance, either to provide public comment or to seek intervention, you may contact the Commission's Consumer Services Section during normal business hours at 602-542-4251 or 1-800-222-7000 (Phoenix office); or 520-628-6550 or 1-800-535-0148 (Tucson office); or you may contact GCU during normal business hours at 928-485-2451. All motions to intervene and all objections to the Streamlined Application must be filed on or before October 13, 2015.

### **How You Can View or Obtain a Copy of the Application and Other Filed Documents**

A copy of the Streamlined Application is available for public inspection during regular business hours at GCU's offices located at 9 West Center Street, Pima, Arizona 85543. A copy of the Streamlined Application is also available at GCU's website ([www.gcu.coop](http://www.gcu.coop)). After September 30, 2015, a copy of the Streamlined Application will also be available for public inspection during regular business hours at the Commission's Docket Control Center at 1200 W. Washington Street, Phoenix, Arizona, 85007, in the Commission's Tucson Office at 400 W. Congress, Tucson, Arizona, 85701 and on the Internet via the Commission's website ([www.azcc.gov](http://www.azcc.gov)) using the e-Docket function.

### **GCU Contact Information**

Graham County Utilities, Inc.  
9 West Center Street  
PO Drawer B  
Pima, Arizona 85543  
Phone: 928-485-2451

### **ADA/Equal Access Information**

The Commission does not discriminate on the basis of disability in admission to its public meetings. Persons with a disability may request a reasonable accommodation, such as a sign language interpreter, as well as request this document in an alternative format, by contacting the ADA Coordinator, Shaylin Bernal, e-mail [SABernal@azcc.gov](mailto:SABernal@azcc.gov), voice phone number 602-542-3931. Requests should be made as soon as possible to allow time to arrange the accommodation.

**GRAHAM COUNTY UTILITIES, INC.**  
**STATEMENT OF GAS RATES\***  
**EFFECTIVE APRIL 1, 2016**  
**DECISION NO. ????? DATED MARCH 31, 2016**  
**DOCKET NO. G-02527A-15-0319**

<u>Description</u>	<u>Distribution Rate</u>
<b><u>Rate Schedule GA – Residential Gas Service</u></b>	
Monthly Service Availability Charge	\$16.30
Delivery Charge – Per Therm for all gas	\$0.37800
<b><u>Rate Schedule GB – Commercial Gas Service</u></b>	
Monthly Service Availability Charge	\$33.60
Delivery Charge – Per Therm for all gas	\$0.38000
<b><u>Rate Schedule GI – Irrigation Gas Service</u></b>	
Monthly Service Availability Charge	\$27.55
Delivery Charge – Per Therm for all gas	\$0.19000

- \* The above rates do not reflect the Purchased Gas Adjustor (PGA) that is subject to adjustment as described in Schedule PGA – Purchased Gas Adjustor. All Charges are subject to adjustment for any applicable taxes or regulatory assessments.

# **Attachment 4**

1 **BEFORE THE ARIZONA CORPORATION COMMISSION**

2 COMMISSIONERS

3 SUSAN BITTER SMITH  
4 DOUG LITTLE  
5 TOM FORESE  
6 BOB BURNS  
7 BOB STUMP

DOCKET NO. G-02527A-15-3019

8 **DECISION NO.** \_\_\_\_\_

9 IN THE MATTER OF THE APPLICATION  
10 OF GRAHAM COUNTY UTILITIES, INC. -  
11 GAS DIVISION FOR A DETERMINATION  
12 OF THE FAIR VALUE OF ITS PROPERTY  
13 FOR RATEMAKING PURPOSES, TO FIX A  
14 JUST AND REASONABLE RATE OF  
15 RETURN THEREON, TO APPROVE RATES  
16 DESIGNED TO DEVELOP SUCH RETURN,  
17 AND FOR RELATED APPROVALS.

**ORDER**

13 Open Meeting  
14 [INSERT DATE]  
15 Phoenix, Arizona

16 **BY THE COMMISSION:**

17 \* \* \* \* \*

18 Having considered the entire record herein and being fully advised in the premises, the  
19 Arizona Corporation Commission ("Commission") finds, concludes and orders that:

20 **FINDINGS OF FACT**

21 1. In Decision 73649 (February 6, 2013), the Arizona Corporation Commission  
22 ("Commission") adopted revisions to A.A.C. R14-2-103 and added a new section A.A.C. R14-2-107  
23 establishing an alternative streamlined ratemaking application and process for nonprofit cooperatives  
24 providing electric or natural gas utility service.

25 2. Graham County Utilities, Inc., ("GCU" or the "Cooperative") is a non-profit  
26 cooperative which provides natural gas service to customers in Arizona.

27 3. On August 4, 2015, GCU submitted to the Commission's Utilities Division Staff ("Staff")  
28 a Request for Pre-Filing Eligibility Review in accordance with A.A.C. R14-2-107(C) which included a

1 draft of an application ("Application") to increase rates and charges pursuant to A.A.C. R14-2-107 and  
2 A.R.S. § 40-250, a proposed form of customer notice, and a proposed form of recommended order.

3 4. On September 3, 2015, GCU met with Staff as required by A.A.C. R14-2-107(C)(3) to  
4 discuss the Cooperative's eligibility under A.A.C. R14-2-107(B), the proposed form of customer notice,  
5 and the proposed form of recommended order. At the meeting, Staff advised GCU that it met the  
6 eligibility requirements of A.A.C. R14-2-107(B) for filing a streamlined rate case. At the meeting, Staff  
7 also approved the form of customer notice to be mailed to customers as required by A.A.C. R14-2-  
8 107(C)(5) and A.A.C. R14-2-107(D).

9 5. GCU filed a Request for Docket Number and Notice of Filing Proposed form of  
10 Customer Notice on September 3, 2015, in accordance with A.A.C. R14-2-107(C)(4). The docket number  
11 was assigned that same day.

12 6. On September 9, 2015 GCU caused a copy of the approved customer notice to be mailed  
13 via First Class Mail to all customers of record as of the date of mailing. On September 21, 2015, GCU  
14 docketed a Notice of Mailing Customer Notice certifying that the approved customer notice was mailed  
15 via First Class Mail by September 9, 2015 to each customer of the Cooperative as required by A.A.C.  
16 R14-2-107(C)(5) and A.A.C. R14-2-107(D). The customer notice set a deadline of October 13, 2015 for  
17 customers of GCU to file intervention requests and/or objections to the Application.

18 7. On September 30, 2015, GCU filed its Application pursuant to A.R.S. § 40-250 and  
19 A.A.C. R14-2-107 to increase its rates and charges using a test year ending December, 2014 ("Test  
20 Year"). GCU requested that the Application be approved without a hearing.

21 8. No customer of GCU filed an application to intervene in this docket. As of the date of  
22 the deadline for submitting objections, [INSERT NUMBER OF OBJECTIONS] customers of the  
23 Cooperative submitted objections to the Application.

24 9. On [INSERT DATE], Staff filed a Notice of Eligibility pursuant to A.A.C. R14-2-  
25 107(H)(2) notifying GCU that it met all of the eligibility requirements set forth in A.A.C. R14-2-107(B)  
26 to file a rate case under A.A.C. R14-2-107.

27 10. On [INSERT DATE], Staff filed a Notice of Sufficiency pursuant to A.A.C. R14-2-  
28 107(H)(3) notifying GCU that the Application met all of the requirements of R14-2-107(E) and  
classifying the Cooperative as a Class B utility.

11. On [INSERT DATE], Staff filed a Staff Report recommending approval of the Application without a hearing.

12. On [INSERT DATE], GCU filed a response to the Staff Report.

13. GCU is an Arizona member-owned non-profit natural gas distribution cooperative headquartered in Pima, Arizona. The Cooperative provides natural gas distribution service to approximately 4,745 members/customers located in Graham County.

14. GCU has a 9-member Board of Directors ("Board") which is elected by the membership of the Cooperative to oversee all aspects of the Cooperative's operations. The Board approved the filing of the Application at a regular meeting of the Board on June 2, 2015.

15. GCU's current rates and charges were established in Decision 74002 issued August 1, 2013. In its Application, GCU sought to increase its annual gross revenue requirement by \$114,237, from adjusted Test Year revenues of \$3,033,696 to \$3,147,933, an increase of 6% over actual Test Year total base revenue. The rate increase would yield a Operating Margin of \$150,202. GCU's proposal results in a 5.84% rate of return on Fair Value Rate Base ("FVRB").

16. The Application shows that an average residential customer with monthly consumption of 59 therms (average usage) in the winter will see an increase in his or her bill of \$1.30 per month (\$37.30 to \$38.60), or 3.5%. A residential customer with monthly natural gas consumption of 46 therms (median usage) in the winter will see an increase in his or her bill of \$1.30 per month (from \$32.39 to \$33.69), or 4%.

17. The Cooperative's Application states that the rate increase is necessary to recover operating costs. The rate increase will allow GCU to maintain the financial integrity of the Cooperative.

18. As attachments to the Application, GCU submitted audited financial statements for the year ended September 30, 2014. This is the GCU's most recent report to CFC.

19. The Application uses Original Cost Rate Base as FVRB. GCU waived the use of reconstruction cost new rate base to determine the Cooperative's fair value rate base as required by A.A.C. R14-2-107(E)(2).

20. The Application does not propose (i) any change to an existing adjustor or surcharge mechanism; (ii) adoption of any new adjustor or surcharge mechanism; (iii) adoption of a new hook-up fee or another new type of fee; (iv) any rate structure change as defined in 13 A.A.C. R14-2-107(A)(11);

Decision No. \_\_\_\_\_

1 or (v) any non-price tariff change. The Application does not seek financing approval or consolidation  
2 with another docket.

3 21. GCU is a distribution cooperative. Pursuant to A.A.C. R14-2-107(B)(14), objections to  
4 the Application timely submitted by the Cooperative's customers may represent no more than 5% of all  
5 customer accounts or no more than 1,000 customer accounts, whichever is fewer. For purposes of  
6 determining eligibility under this rule, the total number of Arizona GCU customer accounts as of  
7 December 31, 2014 was 4,745. Five percent of the customer accounts is 237 accounts, so the applicable  
8 complaint threshold for GCU is 237. As of the October 13, 2015 objection deadline, the Commission  
9 received [INSERT NUMBER OF COMPLAINTS] customer objections to the Application, which is far  
10 below the threshold under A.A.C. R14-2-107(B)(14).

11 22. GCU's FVRB is determined to be \$2,340,224, which is the same as its OCRB.

12 23. In the Test Year, GCU had adjusted total revenues of \$3,033,696.

13 24. We find that GCU's request to increase its annual gross revenue requirement by  
14 \$114,237, from adjusted Test Year revenues of \$3,033,696 to \$3,147,933, complies with A.A.C. R14-2-  
15 107. The rate increase will yield an Operating Margin of \$132,230 resulting in a 5.65% rate of return on  
16 FVRB.

17 25. We find that GCU's Application fully complies with the requirements of A.A.C. R14-2-  
18 107.

19 26. GCU's proposed increase to customer rates and charges as set forth in the Application is  
20 reasonable and should be adopted.

#### 21 CONCLUSIONS OF LAW

22 27. GCU is a public service corporation pursuant to Article XV of the Arizona Constitution  
23 and A.R.S. § § 40-250 and 40-251.

24 28. The Commission has jurisdiction over GCU and the subject matter of the application.

25 29. Notice of the proceeding was provided in conformance with A.A.C. R14-2-107(D).

26 30. A full permanent rate case decision for GCU was issued within the 180-month period  
27 immediately preceding the filing of the Application in this docket.

28 31. This is the first application filed by GCU under A.A.C. R14-2-107.

Decision No. \_\_\_\_\_

32. GCU is required by law and/or contract to make audited annual financial statements to CFC.

33. The Test Year used by GCU complies with the definition of a test year in A.A.C. R14-2-107(A).

34. GCU's Application does not propose an increase in actual Test Year total base revenue of more than 6%.

35. The rates, charges, approvals and conditions of service approved herein are just and reasonable and in the public interest.

**ORDER**

IT IS THEREFORE ORDERED that Graham County Utilities, Inc., is hereby authorized and directed to file with the Commission revised schedules of rates and charges consistent with the discussion herein and a proof of revenues showing that, based on the adjusted Test Year level of sales, the revised rates will produce no more than the authorized increase in returns.

IT IS FURTHER ORDERED that the revised schedules of rates and charges shall be effective for all service rendered on or after [INSERT DATE].

IT IS FURTHER ORDERED that Graham County Utilities, Inc., shall notify its customers of the revised schedules of rates and charges authorized herein by means of an insert, in a form acceptable to Staff, included in its next regularly scheduled billing.

IT IS FURTHER ORDERED that this Decision shall become effective immediately.

**BY ORDER OF THE ARIZONA CORPORATION COMMISSION**

CHAIRMAN

COMMISSIONER

COMMISSIONER

COMMISSIONER

COMMISSIONER

Decision No. \_\_\_\_\_



IN WITNESS WHEREOF, I, JODI JERICH, Executive  
Director of the Arizona Corporation Commission, have  
Here unto, set my hand and caused the official seal of this  
Commission to be affixed at the Capitol, in the City of  
Phoenix, this \_\_\_\_ day of \_\_\_\_\_, \_\_\_\_\_

\_\_\_\_\_  
JODI JERICH  
EXECUTIVE DIRECTOR

DISSENT: \_\_\_\_\_

DISSENT: \_\_\_\_\_

Decision No. \_\_\_\_\_

**GRAHAM COUNTY UTILITIES, INC.**  
**STATEMENT OF GAS RATES\***  
**EFFECTIVE APRIL 1, 2016**  
**DECISION NO. ????? DATED MARCH 31, 2016**  
**DOCKET NO. G-02527A-15-0319**

<u>Description</u>	<u>Distribution Rate</u>
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Monthly Service Availability Charge	\$33.60
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<b><u>Rate Schedule GI – Irrigation Gas Service</u></b>	
Monthly Service Availability Charge	\$27.55
Delivery Charge – Per Therm for all gas	\$0.19000

- \* The above rates do not reflect the Purchased Gas Adjustor (PGA) that is subject to adjustment as described in Schedule PGA – Purchased Gas Adjustor. All Charges are subject to adjustment for any applicable taxes or regulatory assessments.